

KUT RADIO
of

THE UNIVERSITY OF TEXAS AT AUSTIN

FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT

YEARS ENDED AUGUST 31, 2013 and 2012

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INDEPENDENT AUDITOR'S REPORT

To the Management of KUT Radio and to
The University of Texas at Austin
Austin, Texas

We have audited the accompanying financial statements of the business-type activities of KUT Radio of the University of Texas at Austin as of and for the years ended August 31, 2013 and August 31, 2012, and the related notes to the 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the the business-type activities of KUT Radio of the University of Texas at Austin, as of August 31, 2013 and August 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the KUT Radio and do not purport to, and do not, present fairly the financial position of the University of Texas at Austin, as of August 31, 2013 and 2012, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Emphasis of Matter (continued)

As discussed in Note 1 to the financial statements, KUT Radio adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* as of June 30, 2013. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise KUT Radio of the University of Texas at Austin's basic financial statements. The accompanying schedules of functional expenses are presented for purposes of additional analysis and are not a required part of the financial statements. The schedules of functional expenses are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of functional expenses are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Respectfully submitted,

Kindler, Chappell, Morrison & Co., P.C.

Austin, Texas
January 29, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

KUT Public Media operates within the Moody College of Communication at the University of Texas at Austin. KUT Public Media operates and these financial statements reflect KUT 90.5FM, KUTX 98.9FM, KXBT 88.1FM, and the Cactus Cafe. These financial statements are submitted to the Corporation for Public Broadcasting on behalf of grantee KUT FM which will be referenced entity for the remainder of this document.

This section of KUT FM's annual financial report presents our discussion and analysis of KUT FM's financial performance during the fiscal year ending August 31, 2013.

FINANCIAL HIGHLIGHTS

- KUT FM's total combined net position was \$12,917,984 at August 31, 2013.
- During the year, KUT FM's expenses were \$1,063,315 less than the \$10,345,269 generated in revenues from activities, direct and in-kind support from the University of Texas at Austin.
- The total cost of KUT FM's programming and operations increased by \$1,273,928.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements and supplementary information. These statements are presented as proprietary fund statements and offer both short and long term financial information about the activities of KUT FM.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of supplementary information that further explains and supports the information in the financial statements.

The financial statements report information about KUT FM as a whole using accounting methods similar to those used by independent non-profit organizations. The statement of net assets position includes all of KUT FM's assets and liabilities. The statement of activities presents information showing how KUT FM's net assets changed during the year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses and change in net assets position regardless of when cash is received or paid.

These three statements report KUT FM's net position and how it has changed. Net position– the difference between KUT FM's assets and liabilities – is one way to measure KUT FM's financial health or position.

- Over time, increases or decreases in KUT FM's net position an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of KUT FM, one needs to consider additional non-financial factors such as stability and growth of radio and related services.

The supplementary information section includes KUT FM's statement of functional expenses. KUT FM's programming and services are included here. Revenues from grants, sales and services as well as memberships and contributions finance most of these activities.

FINANCIAL ANALYSIS OF KUT FM AS A WHOLE

Net Assets

KUT FM's combined net position was \$12,917,984 at August 31, 2013.

(see table A-1 next page)

KUT RADIO
THE UNIVERSITY OF TEXAS AT AUSTIN
STATEMENTS OF NET POSITION
August 31, 2013 and 2012

	2013	2012
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 1,897,254.00	\$ 2,959,027.00
Accounts Receivable		
Trade Receivable	\$ 435,214.00	\$ 447,147.00
Pledges Receivable	\$ 744,548.00	\$ 428,223.00
Endowment Receivable	\$ 20,000.00	\$ 20,000.00
Contributions Receivable	\$ -	\$ 9,509.00
Total Current Assets	<u>\$ 3,097,016.00</u>	<u>\$ 3,863,906.00</u>
Capital Assets		
Furniture and Equipment - Net	\$ 125,779.00	\$ 120,975.00
Leasehold Improvements - Net	<u>\$ 7,817,347.00</u>	<u>\$ 8,125,006.00</u>
Total Capital Assets Net of Accumulated Depreciation/Amortization	\$ 7,943,126.00	\$ 8,245,981.00
Other Assets	<u>\$ 5,733,857.00</u>	<u>\$ -</u>
Total Non-Current Assets	<u>\$ 13,676,983.00</u>	<u>\$ 8,245,981.00</u>
Total Assets	<u>\$ 16,773,999.00</u>	<u>\$ 12,109,887.00</u>
LIABILITIES		
Current Liabilities		
Accounts Payable	\$ 109,158.00	\$ 111,003.00
Advances from Underwriters	\$ 76,747.00	\$ 144,216.00
Current portion of interfund Note Payable	<u>\$ 346,696.00</u>	<u>\$ -</u>
Total Current Liabilities	\$ 532,601.00	\$ 255,219.00
Noncurrent Portion of Interfund Note Payable	<u>\$ 3,323,414.00</u>	<u>\$ -</u>
Total Liabilities	<u>\$ 3,856,015.00</u>	<u>\$ 255,219.00</u>
NET POSITION		
Invested in Capital Assets Net of Related Debt	\$ 7,943,126.00	\$ 8,245,981.00
Restricted - nonexpendable	\$ 25,000.00	\$ 25,000.00
Restricted - Radio Services Community	\$ 145,986.00	\$ 139,353.00
Unrestricted Net Position	<u>\$ 4,803,872.00</u>	<u>\$ 3,444,334.00</u>
Total Net Position	<u>\$ 12,917,984.00</u>	<u>\$ 11,854,668.00</u>

KUT FM implemented GASB 35 in fiscal year 2003-2004 and the financial statements reflect this change. KUT FM's restricted net position reflects grant funds of \$145,986.

Changes in Net Assets

KUT FM's total revenues were \$10,345,269. A significant portion, approximately 83%, of KUT FM's revenue comes from individual membership contributions and underwriting (sponsorships) of programming. KUT FM receives approximately 9% of its total revenues in the form of non-operating support from The University of Texas at Austin and other entities in the form of direct financial support and indirect and in kind support of activities. KUT FM receives approximately 8% of its total revenue from private foundation and federal grant sources.

Major Sources of Revenue

	<u>2011-2012</u>	<u>2012-2013</u>
Sales/Services and Memberships/Contributions	\$7,294,450	\$8,537,034
Grants	\$538,419	\$724,268
Other Operating Support	\$902,010	\$3,637
Non Operating Support	\$1,865,634	-

The total costs of all programming, services and operations was \$9,281,953.

- 66% of total costs were directly related to content and service delivery
- 27% of total costs were directly related to resource development and listener services
- 7% of total costs were directly related to administration, strategy and outreach

CAPITAL ASSETS AND DEBT ADMINISTRATION

At August 31, 2013, KUT FM had \$8,968,198 invested in capital assets of which \$8,171,755 was held in leasehold improvements and \$796,443 held in equipment. Equipment increased \$32,341 from the purchase of new assets.

KUT FM completed new office and studio space in July 2012. This leasehold improvement of \$8,171,755 is reflected in the capital assets.

Since fiscal year 2003-2004, KUT FM has accounted for annual depreciation in its operating budget and statement of expenses. Equipment depreciation for fiscal year 2012-2013 was \$27,537 and was accounted for in operating expenses. Leasehold improvement amortization was recorded and accounted for in operating expenses in the amount of \$327,186.

KUT FM has budgeted for fiscal year 2013-2014 capital investments of approximately \$68,000 in new fixed assets and/or replacement of fully depreciated assets.

purchase of the broadcast signal 98.9 FM that KUT FM operates under the FCC call sign KUTX FM. It is a 10 year note beginning 9/1/2013 and ending 9/1/2022 at an annual interest percentage rate of 4%.

LONG TERM DEBT

KUT FM has a long term note payable to The University of Texas at Austin in the remaining amount of \$3,670,110 of which \$346,696 is considered due in short term. This note is for the

BUDGETARY HIGHLIGHTS

KUT FM, a wholly owned licensee of the University of Texas at Austin, is bound by University rules regarding expenditures. The University of Texas on behalf of KUT FM purchased 98.9 FM and began broadcasting a 24/7 music service under the call sign KUTX. The purchase was completed at the end of 2012. This accounts for a significant variance in both budgeted expenses and revenues.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

KUT FM adopts annual operating budgets for each fiscal year. KUT FM's operating costs for fiscal year 2014 are projected to be \$8,243,981. Targeted revenue for the fiscal year ending August 31, 2014 is \$8,882,718. KUT FM believes these goals to be realistic and achievable. The KUT FM annual operating budget does not reflect approximately \$900,000 in non-cash indirect support provided to KUT by the University of Texas at Austin. This support is reported as both income and expense balancing entries in the annual financial statements.

FY 2014 will reflect no direct operating support from the Moody College of Communication at the University of Texas. Significant, non-cash indirect support will continue to appear in the audited financial statements.

CONTACTING KUT FM's FINANCIAL MANAGEMENT

This financial report is designed to provide its users with a general overview of KUT FM's finances and to demonstrate KUT FM's accountability for the money it receives. Questions about this report may be directed to the accounting department of KUT FM at the below information.

KUT FM
ATTN: Accounting
300 West Dean Keeton Stop A0704
Austin Texas 78712

FINANCIAL STATEMENTS

KUT RADIO

THE UNIVERSITY OF TEXAS AT AUSTIN

STATEMENTS OF NET POSITION

August 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,897,254	\$ 2,959,027
Accounts receivable		
Trade receivable	435,214	447,147
Pledges receivable	744,548	428,223
Endowment receivable	20,000	20,000
Contributions receivable (note 3)	-	9,509
Total current assets	<u>3,097,016</u>	<u>3,863,906</u>
Capital Assets		
Furniture and equipment, net	125,779	120,975
Leasehold improvements, net	<u>7,817,347</u>	<u>8,125,006</u>
Total capital assets, net of accumulated depreciation/amortization	7,943,126	8,245,981
Other assets (note 6)	<u>5,733,857</u>	-
Total noncurrent assets	<u>13,676,983</u>	<u>8,245,981</u>
Total assets	<u>\$ 16,773,999</u>	<u>\$ 12,109,887</u>
LIABILITIES		
Current liabilities		
Accounts payable	\$ 109,158	\$ 111,003
Advances from underwriters	76,747	144,216
Current portion of interfund note payable (note 7)	<u>346,696</u>	-
Total current liabilities	532,601	255,219
Noncurrent portion of interfund note payable (note 7)	<u>3,323,414</u>	-
Total liabilities	<u>\$ 3,856,015</u>	<u>\$ 255,219</u>
NET POSITION		
Invested in Capital Assets net of related debt	\$ 7,943,126	\$ 8,245,981
Restricted - nonexpendable	25,000	25,000
Restricted - Radio Services Community	145,986	139,353
Unrestricted net position	<u>4,803,872</u>	<u>3,444,334</u>
Total net position	<u>\$ 12,917,984</u>	<u>\$ 11,854,668</u>

See accompanying Notes to Financial Statements

KUT RADIO

THE UNIVERSITY OF TEXAS AT AUSTIN

STATEMENT OF ACTIVITIES

Year Ended August 31, 2013

	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
					Business-Type Activities
Business-type activities:					
KUT Radio	\$ 9,281,953	\$ 4,394,367	\$ 5,950,902	\$ -	\$ 1,063,316
General revenues:					
Gain (loss) on disposal of asset					-
Change in net position					1,063,316
Net position - beginning					11,854,668
Net position - ending					\$ 12,917,984

See accompanying Notes to Financial Statements

KUT RADIO

THE UNIVERSITY OF TEXAS AT AUSTIN

STATEMENT OF ACTIVITIES

Year Ended August 31, 2012

	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position	
					Business-Type Activities	
Business-type activities						
KUT Radio	\$ 8,008,025	\$ 3,792,875	\$ 4,942,004	\$ 1,865,284		\$ 2,592,138
General revenues:						
Gain (loss) on disposal of asset						350
Change in net position						2,592,488
Net position - beginning						9,262,180
Net position - ending						<u>\$ 11,854,668</u>

See accompanying Notes to Financial Statements

KUT RADIO

THE UNIVERSITY OF TEXAS AT AUSTIN

STATEMENTS OF REVENUES, EXPENSES AND CHANGE IN NET POSITION

Years ended August 31, 2013 and 2012

	2013	2012
OPERATING REVENUES		
Sales and services	\$ 4,394,367	\$ 3,792,875
Memberships and contributions	4,142,667	3,501,575
General support	934,068	838,692
In-kind support	149,899	63,318
Grants	724,268	538,419
Total operating revenues	10,345,269	8,734,879
OPERATING EXPENSES		
Program services		
Programming and production	4,708,800	3,935,199
Broadcasting	909,922	847,336
Program information and promotion		
Cactus Café	488,231	413,796
Support services		
Management and general	668,016	475,930
Fundraising and development	1,299,988	1,274,565
Underwriting and grant solicitation	1,206,996	1,061,199
Total operating expenses	9,281,953	8,008,025
Operating profit (loss)	1,063,316	726,854
NONOPERATING REVENUES (EXPENSES)		
Capital campaign contributions	-	1,865,284
Gain on disposal of fixed assets	-	350
Net nonoperating revenues	-	1,865,634
Change in net position	1,063,316	2,592,488
Beginning of year	11,854,668	9,262,180
End of year	\$ 12,917,984	\$ 11,854,668

See accompanying Notes to Financial Statements.

KUT RADIO
THE UNIVERSITY OF TEXAS AT AUSTIN
STATEMENTS OF CASH FLOWS
Years Ended August 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from sales and services	\$ 3,959,153	\$ 3,345,728
Cash received from membership contributions	3,398,120	3,073,352
Cash received from general support and in-kind contributions	1,083,967	902,010
Cash received from grants	724,268	538,419
Cash payments to employees	(4,015,262)	(3,563,975)
Cash payments to other suppliers for goods and services	(4,096,404)	(2,314,988)
Net cash provided (used) by operating activities	<u>1,053,842</u>	<u>1,980,545</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital campaign contributions	-	1,865,284
Purchase/disposal of fixed assets	(51,868)	(8,120,556)
Loss on disposal of fixed assets	-	350
Deposit on leasehold improvements	(5,733,857)	4,731,658
Increase in leasehold liability	-	(300,000)
Increase in debt	3,670,110	-
Depreciation adjustment for disposal of fixed assets	-	(31,322)
Net cash provided (used) by capital and related financing activities	<u>(2,115,615)</u>	<u>(1,854,586)</u>
CASH FLOWS PROVIDED BY (USED BY) INVESTING ACTIVITIES	<u>-</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH	<u>(1,061,774)</u>	<u>125,959</u>
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>2,959,027</u>	<u>2,833,068</u>
End of year	<u>\$ 1,897,254</u>	<u>\$ 2,959,027</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 1,063,316	\$ 726,854
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	27,537	51,949
Amortization	327,186	27,222
Changes in assets and liabilities:		
Trade receivable	11,933	19,428
Pledges receivable	(316,325)	(188,339)
Contributions receivable	9,509	1,245,839
Accounts payable	(1,845)	51,997
Advances from underwriters	(67,469)	45,595
Net cash provided by (used by) operating activities	<u>\$ 1,053,842</u>	<u>\$ 1,980,545</u>

See accompanying Notes to Financial Statements.

KUT - RADIO
NOTES TO FINANCIAL STATEMENTS
Years Ended August 31, 2013 and 2012

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of KUT Radio (the Organization) of the University of Texas at Austin (the University) have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") applicable to Public Colleges and Universities. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

Description of the Organization

KUT Radio is licensed to The University of Texas at Austin and is governed by the University of Texas Board of Regents. It provides a high quality mix of local and national informational and cultural public radio programs to Central Texas. It operates as a part of the Communication Department of the University and is included in the University's general ledger accounting system. All accounting transactions of the Organization are processed by the University's administrative offices and are included in the University's financial report.

These financial statements present only KUT Radio and do not purport to, and do not, present fairly the financial position of the University of Texas at Austin, as of August 31, 2013 and 2012, and the changes in its financial position and cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America. Complete financial statements of the University of Texas at Austin can be obtained at its administrative offices.

Basis of presentation, Basis of accounting

KUT Radio uses the reporting model for business-type activities (Enterprise Fund Model) as described in GASB Statement No. 35. Enterprise fund operating revenues, such as charges for services and contributions, result from transactions associated with the principal activity of the fund. Operating expenses include salaries and wages and related costs, materials and supplies, depreciation. All revenues and expenses not meeting the definition of operating revenues or expenses are reported as non-operating revenues and expenses. KUT had no non-operating expenses in 2013 or 2012.

Measurement focus, Basis of accounting

Enterprise fund financial statements are reported using the economic resources measurement focus. They use the accrual basis of accounting. Using this basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the Organization receives value without directly giving equal value in exchange, include state appropriations. On an accrual basis, revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

When the Organization incurs an expense for which both restricted and unrestricted resources may be used, it is the Organization's policy to use restricted resources first, then unrestricted resources.

Under GASB Statement No. 20, "Accounting and Financial Reporting For Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," all proprietary funds will continue to follow Financial Accounting Standards Board ("FASB") standards issued on or before November 30, 1989. However, from that date forward, proprietary funds will have the option of either 1) choosing not to apply future FASB standards (including amendments of earlier pronouncements), or 2) continuing to follow new FASB pronouncements unless they conflict with GASB guidance. The Organization has chosen to apply future FASB standards.

Financial statement amounts

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

Cash and Cash Equivalents

For purposes of the statement of cash flows, highly liquid investments are considered to be cash equivalents if they have a maturity of three months or less when purchased.

KUT - RADIO
NOTES TO FINANCIAL STATEMENTS - continued
Years Ended August 31, 2013 and 2012

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Accounts receivable/payables

Accounts receivable includes amounts pledged but not received, as well as amounts earned, but not billed at year end. All pledges receivable not expected to be received within one year are classified as noncurrent. The Organization uses the direct write-off method of providing for uncollectible accounts receivable. Generally accepted accounting principles require that the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method.

The Organization believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

Capital assets

Capital assets are recorded at cost if purchased and fair value if donated. KUT capitalizes equipment that has a useful life of 3 years or more and an acquisition cost of \$2,500 or greater.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 3 to 20 years.

Net position

GASB Statement No. 34, as amended by GASB 63 and 65, requires resources be classified for accounting and reporting purposes into the following net position categories:

Invested in Capital Assets, Net of Related Debt

Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. The Organization had \$- and - in related debt at August 31, 2013 and 2012, respectively.

Restricted

Nonexpendable

Net position subject to externally imposed stipulations that they be maintained permanently by the Organization. The Organization had \$25,000 and \$25,000 in Restricted-Nonexpendable net position at August 31, 2013 and 2012, respectively.

Expendable

Net position whose use by the Organization is subject to externally imposed stipulations that can be fulfilled by actions of the Organization pursuant to those stipulations or that expire with the passage of time. The Organization had \$145,986 in Restricted-Expendable net position at August 31, 2013 and \$139,353 at August 31, 2012. These were restricted for program specific use and capital additions.

Unrestricted

Net position that is not subject to externally imposed stipulations. The Organization had \$8,473,982 and \$3,444,334 in unrestricted net position at August 31, 2013 and 2012, respectively.

It is the Organization's policy to consider restricted-net position to have been depleted before unrestricted-net position is applied.

Donated materials and services

The Organization reports donated materials as general support. Donated materials are recorded at an estimated fair value based on the experience of the Organization. The Organization uses contributed services in its operations and reports the services as in-kind support. The contributed services are reported as support if, a) the services create or enhance non-financial assets or b) the services require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The donated materials and services are offset with a charge to the appropriate expense account.

KUT - RADIO
NOTES TO FINANCIAL STATEMENTS - continued
Years Ended August 31, 2013 and 2012

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Allocation of common costs

The Organization allocates common costs between program services and supporting services based on the activities of the Organization. The resulting allocations are reviewed annually, and the allocations revised, if necessary, to reflect changes in the activities of the Organization.

Compensated absences

The University of Texas at Austin's policy is as follows:
 Full-time state employees earn annual leave from eight to twenty-one hours per month depending upon the respective employees' years of state employment. Accrued leave may be carried forward from one fiscal year to another fiscal year, with a maximum number of hours up to 532 for those employees with 35 or more years of state service. Employees with at least six months of state service who terminate their employment are entitled to payment for all accumulated annual leave up to the maximum allowed. Sick leave, the accumulation of which is unlimited, is earned at the rate of eight hours per month and is paid only when an employee is off due to illness or to the estate of an employee in the event of death. The maximum sick leave that may be paid to an employee's estate is one-half of the accumulated entitlement or 336 hours, whichever is less. The cost of sick leave is recognized when paid and the liability is not shown in the financial statements and is considered to be immaterial.

Implementation of Accounting Standards

The Government Accounting Standards Board issued GASB Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective for periods beginning after December 15, 2011 and GASB Statement 65, *Items Previously Reported as Assets and Liabilities*, effective for periods beginning after December 15, 2012, although early adoption is encouraged. MYEC adopted GASB 63 and 65 for the year ended September 30, 2013. The adoption required certain terminology changes to the 2012 statements as presented. There were no other substantial changes to the financial statements based on the adoption.

Subsequent events were evaluated through January 29, 2014 which is the date the financial statements were available for issuance.

NOTE 2: DEPOSITS

At year end, the Organization's carrying amount of deposits was \$1,897,254 at August 31, 2013 and \$2,959,027 at August 31, 2012. KUT Radio's cash is kept in pooled cash accounts maintained by the University of Texas at Austin. All cash balances of the University of Texas at Austin are covered by FDIC insurance or by collateral held by the University's agent in the University's name or the pledging financial institution's trust department or agent in the University's name.

NOTE 3: CONTRIBUTIONS RECEIVABLE

In 2007, KUT began a capital campaign to raise funds to contribute to the construction of a new communications building at the University of Texas at Austin.

	2013	2012
Pledges received in 2008	252,000	252,000
Pledges received in 2009	1,431,000	1,431,000
Pledges received in 2010	426,700	426,700
Pledges received in 2011	602,544	602,544
Pledges received in 2012	886,387	886,387
Pledges collected to-date	(3,598,631)	(3,589,122)
Pledges outstanding	-	9,509
Allowance for uncollectible	-	-
Present value discount	-	-
Pledges receivable	-	9,509
Current pledges receivable	-	-
Non-current pledges receivable	-	9,509

KUT - RADIO
NOTES TO FINANCIAL STATEMENTS – continued
Years Ended August 31, 2013 and 2012

NOTE 3: CONTRIBUTIONS RECEIVABLE – continued

The pledges outstanding are valued using a present value discount rate of 3.5% for years prior to 2009-2010 and 1% thereafter, which resulted in the present value discount of -0- for 2013 and \$12,387 for 2012. The present value discount will be amortized over the life of the pledges and reported as contributions revenue in future periods. At August 31, 2013 and 2012, none of the pledges are considered delinquent.

NOTE 4: CAPITAL ASSETS

Capital asset activity for the period ended August 31, 2013 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Furniture/equipment	\$ 764,102	\$ 32,341	\$ -	\$ 796,443
Accumulated depreciation	(643,127)	(27,537)	-	(670,664)
Leashold improvements	8,152,228	19,527	-	8,171,755
Accumulated amortization	(27,222)	(327,186)	-	(354,408)
Total capital assets (net)	<u>\$ 8,245,981</u>	<u>\$ (302,855)</u>	<u>\$ -</u>	<u>\$ 7,943,126</u>

Capital asset activity for the period ended August 31, 2012 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Furniture/equipment	\$ 795,774		\$ (31,672)	\$ 764,102
Accumulated depreciation	(622,500)	(51,949)	31,322	(643,127)
Leashold improvements	-	-	8,152,228	8,152,228
Accumulated amortization	-	(27,222)	-	(27,222)
Total capital assets (net)	<u>\$ 173,274</u>	<u>\$ (79,171)</u>	<u>\$ 8,151,878</u>	<u>\$ 8,245,981</u>

Depreciation was charged to Program Services.

NOTE 5: COMMITMENTS AND CONTINGENCIES

The Organization participates in funding that is subject to audit by funding agencies. These grantors have program compliance requirements and should funding source auditors find areas of non-compliance, the Organization may be required to refund unallowable costs. Management believes that such unallowable costs, if any, are not significant.

NOTE 6: OTHER ASSETS

Other assets represent monies KUT transferred to the University of Texas at Austin in 2013 in connection with the purchase of a second radio station. The transfer was made in anticipation of KUT being able to purchase the radio station in 2013.

NOTE 7: DEBT

In November, 2012, KUT acquired a second radio station (KUTX). As part of the purchase of KUTX, the University of Texas loaned KUT \$4,000,000, payable over a 10 year period, with an interest rate of 4%. KUTX is pledged as security for the loan. Interest expense is considered a direct expense of Programming & Production and is included in Other Expense on the Statement of Activities. Interest expense is \$120,110 for 2013 and -0- for 2012. There is no accrued interest payable at year-end. The future maturities of long-term debt are as follows.

KUT - RADIO
NOTES TO FINANCIAL STATEMENTS - continued
Years Ended August 31, 2013 and 2012

NOTE 7: DEBT - continued

Year	Amount
2014	\$ 346,696
2015	360,563
2016	374,661
2017	389,972
2018	405,571
Thereafter	1,792,647
Total debt	3,670,110
Current portion	346,696
Non-current portion	\$ 3,323,414
Beginning balance	\$ -
Increases during the year	4,000,000
Decreases during the year	(329,890)
Ending balance	\$ 3,670,110

NOTE 8: EMPLOYEES' RETIREMENT PLANS

The State of Texas has joint contributory retirement plans for substantially all its employees. One of the primary plans in which the University participated is a cost-sharing multi-employer public employee retirement system administered by the Teacher Retirement System of Texas. TRS is primarily funded through state and employee contributions. Depending upon the source of funding for a participant's salary, the University may be required to make contributions in lieu of the state. KUT Radio's share of the employer matching (6% of annual salary) for covered employees is included in the costs reported in the financial statements.

NOTE 9: HEALTH CARE COVERAGE

The U.T. System Employee Group Insurance program provides health, dental, vision, life insurance, long term disability, long term care and flexible spending account coverage to all benefits-eligible employees. These insurance benefits are provided through both self-funded and fully-insured arrangements. A portion of an individual's group health insurance premium is paid by the state as specified in the General Appropriations Act. The System's Office of Employee Group Insurance (EGI) is responsible for the overall administration of the insurance plans. EGI was established by Chapter 1601 (formerly Article 3.50-3) of the *Texas Insurance Code* and complies with state laws and statutes pertinent to employee benefits for the System.

NOTE 10: PERMANENTLY RESTRICTED NET POSITION

The Endowment Fund of KUT-Radio consists of one gift from an individual donor. The endowment includes donor-restricted endowment funds only and related earnings. The endowment funds are maintained in an interest-bearing savings account. As required by generally accepted accounting principles (GAAP), net position associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

In 2013, the Organization had the following endowment related activities:

KUT - RADIO
NOTES TO FINANCIAL STATEMENTS - continued
Years Ended August 31, 2013 and 2012

NOTE 10: PERMANENTLY RESTRICTED NET POSITION - continued

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment, beginning of year	\$ -	\$ -	\$ 25,000	\$ 25,000
Contributions	-	-	-	-
Investment income	-	-	-	-
Net appreciations	-	-	-	-
Appropriations	-	-	-	-
Expenses	-	-	-	-
Endowment, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 25,000</u>	<u>\$ 25,000</u>

In 2012, the Organization had the following endowment related activities:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment, beginning of year	\$ -	\$ -	\$ 25,000	\$ 25,000
Contributions	-	-	-	-
Investment income	-	-	-	-
Net appreciations	-	-	-	-
Appropriations	-	-	-	-
Expenses	-	-	-	-
Endowment, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 25,000</u>	<u>\$ 25,000</u>

In the tables above, amounts reported as "Net Appreciation" represent net appreciation on investments of donor endowments that are available for authorization for expenditure by the UT System Board of Regents. For donor restricted endowments, pursuant to the Uniform Prudent Management of Institutional Funds Act, as adopted by Texas, the UT System Board of Regents may distribute net appreciation, realized and unrealized, in the fair market value of the assets of endowment holdings over the historic dollar value of the gifts, to the extent prudent. The System's policy is to retain all undistributed net realized and unrealized appreciation within the endowment funds.

Endowment Funds are subject to restrictions of endowment and trust instruments, requiring that the principal be maintained and that only the income be utilized. This endowment's holdings are invested in the Long Term Fund, which is managed by the University of Texas Investment Management Company (UTIMCO).

OTHER SUPPLEMENTARY INFORMATION

KUT RADIO

THE UNIVERSITY OF TEXAS AT AUSTIN

STATEMENTS OF FUNCTIONAL EXPENSES

Years Ended August 31, 2013 and 2012

2013

	Program Services			Supporting Services			Total
	Production & Programming	Broadcasting	Cactus Café	Management & General	Fundraising & Development	Underwriting	
EXPENSES							
Salaries and employee benefits	\$ 2,472,902	\$ 470,974	\$ 126,935	\$ 471,911	\$ 472,520	\$ 20	\$ 4,015,262
Professional services	144,353	71,241	238,154	7,510	139,745	1,031,923	1,632,926
Office supplies	4,087	2,633	722	3,525	1,676	-	12,643
Telephone	-	67,261	-	-	-	-	67,261
Postage and shipping	459	2,281	110	2	144,709	-	147,561
Advertising	71,056	-	17,475	-	240	-	88,771
Rental and maintenance of equipment	37,153	35,280	7,125	4,208	1,820	1,612	87,198
Depreciation	-	27,537	-	-	-	-	27,537
Leasehold amortization expense	166,865	35,991	16,359	19,631	45,806	42,534	327,186
Printing, publications, graphics	11,780	-	-	-	92,163	-	103,943
Travel	19,842	3,940	1,184	5,937	12,189	-	43,092
Conferences, conventions, meetings	16,742	687	3,997	150	84,175	698	106,449
Programming	1,074,003	105,105	-	-	-	-	1,179,108
Indirect administration support	433,211	43,296	58,212	140,853	160,917	97,579	934,068
Other	256,347	43,696	17,958	14,289	144,028	32,630	508,948
Total expenses	\$ 4,708,800	\$ 909,922	\$ 488,231	\$ 668,016	\$ 1,299,988	\$ 1,206,996	\$ 9,281,953

See accompanying Notes to Financial Statements.

KUT RADIO

THE UNIVERSITY OF TEXAS AT AUSTIN

STATEMENTS OF FUNCTIONAL EXPENSES - continued

Years Ended August 31, 2013 and 2012

	2012					
	Program Services			Supporting Services		
	Production & Programming	Broadcasting	Cactus Café	Management & General	Fundraising & Development	Underwriting
						Total
EXPENSES						
Salaries and employee benefits	\$ 2,170,281	\$ 392,330	\$139,993	\$ 372,884	\$ 488,477	\$ 10
Professional services	124,531	65,178	196,629	17,270	143,127	916,402
Office supplies	4,638	2,020	347	4,039	1,237	241
Telephone	-	82,326	-	-	-	-
Postage and shipping	225	1,998	60	49	158,218	149
Advertising	-	-	13,455	-	3,855	-
Rental and maintenance of equipment	30,067	108,710	4,304	4,125	-	-
Depreciation	-	51,949	-	-	-	-
Leasehold amortization expense	19,056	-	-	2,722	5,444	-
Printing, publications, graphics	853	-	-	-	129,456	-
Travel	57,789	490	-	13,756	5,025	-
Conferences, conventions, meetings	6,909	1,079	2,105	1,125	85,610	2,459
Programming	938,189	35,333	-	-	-	-
Indirect administration support	407,612	88,542	43,239	49,732	138,678	110,889
Other	175,049	17,381	13,664	10,228	115,438	31,049
Total expenses	\$ 3,935,199	\$ 847,336	\$413,796	\$ 475,930	\$ 1,274,565	\$ 1,061,199
						\$ 8,008,025

See accompanying Notes to Financial Statements.