

WESTERN KENTUCKY UNIVERSITY
WKYU-TV
Bowling Green, Kentucky

FINANCIAL STATEMENTS
June 30, 2014 and 2013

WESTERN KENTUCKY UNIVERSITY
WKYU-TV
Bowling Green, Kentucky

FINANCIAL STATEMENTS
June 30, 2014 and 2013

CONTENTS

INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
FINANCIAL STATEMENTS	
STATEMENTS OF NET POSITION	8
STATEMENTS OF ACTIVITIES	9
STATEMENTS OF CASH FLOWS	10
NOTES TO FINANCIAL STATEMENTS	11

INDEPENDENT AUDITOR'S REPORT

President Gary A. Ransdell and
Members of the Board of Regents
Western Kentucky University
Bowling Green, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of WKYU-TV (the "Station"), a public broadcasting entity operated by Western Kentucky University, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Station's 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 audit. 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 Station'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 Station'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, 2014 and 2013, and the changes in its financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 2, the financial statements present only the Station and do not purport to, and do not, present fairly the financial position of Western Kentucky University as of June 30, 2014 and 2013 and the changes in its financial position and its cash flow 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.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 – 7 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audits of the 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.

Crowe Horwath LLP

Crowe Horwath LLP

Louisville, Kentucky
December 15, 2014

WESTERN KENTUCKY UNIVERSITY
WKYU-TV
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

Introduction

The following Management's Discussion and Analysis ("MD&A") provides an overview of the financial position and activities of WKYU-TV (the "Station") for the year ended June 30, 2014, with selected comparative information for the years ended June 30, 2013 and 2012. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section. The financial statements and related notes and this discussion and analysis are the responsibility of management.

The Station is located on the campus of Western Kentucky University (the "University"). The Station broadcasts Public Broadcasting Service and local programs that inform, enrich and entertain in concert with the mission of the University. The Station's skilled staff, students and volunteers serve viewers with comprehensive music and information programs that reflect current affairs, history and cultures.

Fiscal Year 2014 Highlights

- The Station's net position increased by \$168,074 (11%) as a result of this year's operations.
- Operating revenues increased by \$40,983 (9%) to \$478,187.
- Operating expenses excluding depreciation increased by \$34,476 (1%).
- Net nonoperating revenues increased by \$170,016 (6%).

Governmental Accounting Standards

The MD&A, financial statements and accompanying notes are prepared in accordance with the Governmental Accounting Standards Board ("GASB") pronouncements.

Statements of Net Position

The statements of net position present a financial picture of the Station's financial condition at the end of the fiscal year by reporting assets (current and noncurrent), liabilities (current and noncurrent) and net position (assets less liabilities).

Assets

Total assets of the Station at the end of fiscal year 2014, 2013 and 2012 were \$3,135,103, \$3,565,528 and \$4,180,522, respectively, of which cash and net capital assets represented the largest portions. Cash totaled \$1,384,834 or 39% of total assets at June 30, 2013, and net capital assets totaled \$2,171,806 or 61% of total assets at June 30, 2013. Cash totaled \$1,211,591 or 39% of total assets at June 30, 2014, and net capital assets totaled \$1,909,332 or 61% of total assets at June 30, 2014.

Liabilities

Liabilities of the Station totaled \$1,430,455, \$2,028,954 and \$2,690,099 at June 30, 2014, 2013 and 2012, respectively, of which unearned revenue of \$348,233, \$707,082 and \$1,129,711 and represented 24%, 35% and 42% of total liabilities, respectively. Financing associated with the acquisition of the Television Production Truck accounted for \$1,047,870 or 73% of the Station's total liabilities at June 30, 2014.

WESTERN KENTUCKY UNIVERSITY
WKYU-TV
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

Net Position

Net position of the Station were \$1,704,648, \$1,536,574 and \$1,490,423 at June 30, 2014, 2013 and 2012, respectively, and were divided into two major categories, defined as follows:

- *Net investment in capital assets*– This category represents the Station's equity in equipment.
- *Unrestricted* – This category represents net position held by the Station that have no formal restrictions placed upon them.

Condensed Statements of Net Position
June 30, 2014, 2013 and 2012

	<u>2014</u>	<u>2013</u>	<u>2012</u>
ASSETS			
Current assets	\$ 1,225,771	\$ 1,393,722	\$ 1,876,656
Capital assets, net	<u>1,909,332</u>	<u>2,171,806</u>	<u>2,303,866</u>
Total assets	<u>3,135,103</u>	<u>3,565,528</u>	<u>4,180,522</u>
LIABILITIES			
Current liabilities	634,731	981,084	1,396,360
Non-current portion of long-term debt	<u>795,724</u>	<u>1,047,870</u>	<u>1,293,739</u>
Total liabilities	<u>1,430,455</u>	<u>2,028,954</u>	<u>2,690,099</u>
NET POSITION			
Net investment in capital assets	861,462	878,068	770,379
Unrestricted	<u>843,186</u>	<u>658,506</u>	<u>720,044</u>
Total net position	<u>\$ 1,704,648</u>	<u>\$ 1,536,574</u>	<u>\$ 1,490,423</u>

Statement of Activities

The statement of activities, which is generally referred to as the income statement, presents the total revenues (operating and nonoperating) received and earned by the Station and expenses (operating and nonoperating) paid and owed by the Station and income or loss from operations for the fiscal year.

Revenues

Total operating revenues, which exclude University appropriations, of the Station were \$478,187, \$437,204 and \$445,612 for fiscal years ended June 30, 2014, 2013 and 2012, respectively.

The Station received \$1,221,960, \$1,073,855 and \$1,685,914 during 2014, 2013 and 2012 of University appropriations and \$604,773, \$596,726 and \$622,926 during 2014, 2013 and 2012, respectively, of administrative support from the University, which is classified as nonoperating revenues. These funds were used to support Station operating activities.

Expenses

Total operating expenses of the Station for 2014, 2013 and 2012 were \$3,329,974, \$3,240,898 and \$3,581,572, respectively.

WESTERN KENTUCKY UNIVERSITY
WKYU-TV
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

Condensed Statements of Activities
Years ended June 30, 2014, 2013 and 2012

	<u>2014</u>	<u>2013</u>	<u>2012</u>
REVENUES			
Operating revenues			
Business and industry underwriting	\$ 8,802	\$ 13,997	\$ 69,420
Production	460,058	410,460	328,486
In-kind contributions	<u>9,327</u>	<u>12,747</u>	<u>47,706</u>
Total operating revenues	<u>478,187</u>	<u>437,204</u>	<u>445,612</u>
EXPENSES			
Operating expenses			
Program services	1,941,687	2,001,733	1,918,654
Supporting services	949,583	855,061	1,406,366
Depreciation	<u>438,704</u>	<u>384,104</u>	<u>256,552</u>
Total operating expenses	<u>3,329,974</u>	<u>3,240,898</u>	<u>3,581,572</u>
Operating loss	<u>(2,851,787)</u>	<u>(2,803,694)</u>	<u>(3,135,960)</u>
NONOPERATING REVENUES (EXPENSE)			
General appropriations from Western Kentucky University	1,221,960	1,073,855	1,685,914
Grants from Corporation for Public Broadcasting	1,150,477	1,152,499	652,523
Indirect administrative support	604,773	596,726	622,926
Miscellaneous income	75,680	65,915	127,089
Interest expense	<u>(33,029)</u>	<u>(39,150)</u>	<u>(3,848)</u>
Net nonoperating revenues	3,019,861	2,849,845	3,084,604
Change in net position	168,074	46,151	(51,356)
Net position, beginning of year	<u>1,536,574</u>	<u>1,490,423</u>	<u>1,541,779</u>
Net position, end of year	<u>\$ 1,704,648</u>	<u>\$ 1,536,574</u>	<u>\$ 1,490,423</u>

Statements of Cash Flows

The statement of cash flows provides a summary of the sources and uses of cash by defined categories. The primary purposes of the statement of cash flows are to provide information about the Station's cash receipts and payments during the year and to help assess the Station's ability to generate future net cash flows to meet obligations as they become due.

The major sources of cash from operating activities were business and industry underwriting of \$8,802, \$13,997 and \$69,420 and production of \$460,058, \$410,460 and \$328,486 for fiscal years 2014, 2013 and 2012, respectively. The most significant uses of cash for operating activities were payments to employees of \$1,120,536, \$1,196,278 and \$1,363,461 and to suppliers of \$1,770,815, \$1,656,057 and \$1,971,114 during 2014, 2013 and 2012, respectively.

WESTERN KENTUCKY UNIVERSITY
WKYU-TV
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

The cash flows from noncapital financing activities included \$1,826,733, \$1,670,581 and \$2,308,840 during 2014, 2013 and 2012, respectively, received as general appropriations and indirect support from the University and \$791,629, \$729,870 and \$1,337,269 received during 2014, 2013 and 2012, respectively, from the Corporation for Public Broadcasting, which are the largest sources of cash for the fiscal years.

The cash flows from capital and related financing activities included \$455,129, \$530,942 and \$219,632 paid for capital assets and capital lease obligation payments, during fiscal years 2014, 2013 and 2012, respectively.

Condensed Statements of Cash Flows
Years ended June 30, 2014, 2013 and 2012

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Net cash used in operating activities	\$ (2,412,156)	\$ (2,416,139)	\$ (2,888,963)
Net cash provided by noncapital financing activities	2,694,041	2,466,366	3,773,198
Net cash used in capital and related activities	<u>(455,128)</u>	<u>(530,942)</u>	<u>(219,632)</u>
Increase (decrease) in cash	(173,243)	(480,715)	664,603
Cash, beginning of year	<u>1,384,834</u>	<u>1,865,549</u>	<u>1,200,946</u>
Cash, end of year	<u>\$ 1,211,591</u>	<u>\$ 1,384,834</u>	<u>\$ 1,865,549</u>

Capital Assets and Long-Term Obligations

Capital Assets

As of June 30, 2014, 2013 and 2012, the Station had \$1,909,332, \$2,171,806 and \$2,303,866 net investment in capital assets consisting of equipment, net of accumulated depreciation of \$5,287,558, \$4,848,854 and \$4,464,750, respectively. Capital assets at June 30, 2014, 2013 and 2012 are summarized below:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Capital assets	\$ 7,196,890	\$ 7,020,660	\$ 6,768,616
Less accumulated depreciation	<u>(5,287,558)</u>	<u>(4,848,854)</u>	<u>(4,464,750)</u>
Capital assets, net	<u>\$ 1,909,332</u>	<u>\$ 2,171,806</u>	<u>\$ 2,303,866</u>

Long-Term Obligations

As of June 30, 2014, 2013 and 2012, the Station had \$795,724, \$1,047,870 and \$1,293,739, respectively, in long-term obligations consisting of a note payable on Master Lease Agreement with PNC Bank (2012).

WESTERN KENTUCKY UNIVERSITY
WKYU-TV
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

Economic Factors Impacting Future Periods

The following are known facts and circumstances that may affect the future financial viability of the University:

- Due to the large amount of investments that are held by the Western Kentucky University Foundation, the Station has to consider the fluctuations in the market. Realized and unrealized losses within these accounts can have an effect on our operations.

Requests for Information

This financial report is designed to provide a general overview of Western Kentucky University's Public Radio and Television finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to David Brinkley, Director of Educational Telecommunications, Western Kentucky University, Academic Complex 240A, 1906 College Heights Blvd., Bowling Green, Kentucky 42101. You may also contact David Brinkley via email at david.brinkley@wku.edu or via phone at (270) 745-6140.

WESTERN KENTUCKY UNIVERSITY
WKYU-TV
STATEMENTS OF NET POSITION
June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
Current assets		
Cash on deposit with University	\$ 1,211,591	\$ 1,384,834
Accounts receivable	-	1,008
Prepaid expenses	<u>14,180</u>	<u>7,880</u>
Total current assets	<u>1,225,771</u>	<u>1,393,722</u>
Noncurrent assets		
Capital assets	7,196,890	7,020,660
Accumulated depreciation	<u>(5,287,558)</u>	<u>(4,848,854)</u>
Total noncurrent assets	<u>1,909,332</u>	<u>2,171,806</u>
Total assets	<u>\$ 3,135,103</u>	<u>\$ 3,565,528</u>
LIABILITIES AND NET POSITION		
Current liabilities		
Accrued payroll	\$ 16,070	\$ 8,668
Accrued vacation	18,282	19,465
Unearned revenue	348,233	707,082
Current portion of long-term debt	<u>252,146</u>	<u>245,869</u>
Total current liabilities	634,731	981,084
Long-term payable		
Non-current portion of long-term debt	<u>795,724</u>	<u>1,047,870</u>
Total liabilities	<u>1,430,455</u>	<u>2,028,954</u>
Net position		
Net investment in capital assets	861,462	878,068
Unrestricted	<u>843,186</u>	<u>658,506</u>
Total net position	<u>1,704,648</u>	<u>1,536,574</u>
Total liabilities and net position	<u>\$ 3,135,103</u>	<u>\$ 3,565,528</u>

See accompanying notes to financial statements.

WESTERN KENTUCKY UNIVERSITY
WKYU-TV
STATEMENTS OF ACTIVITIES
Years ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
REVENUES		
Operating revenues		
Business and industry underwriting	\$ 8,802	\$ 13,997
Production	460,058	410,460
In-kind contributions	9,327	12,747
Total operating revenues	<u>478,187</u>	<u>437,204</u>
EXPENSES		
Operating expenses		
Program services		
Programming and production	1,389,551	1,569,943
Broadcasting	543,604	407,255
Program information and promotion	8,532	24,535
	<u>1,941,687</u>	<u>2,001,733</u>
Supporting services		
Management and general	808,192	719,526
Fundraising	93,181	95,936
Underwriting	48,210	39,599
	<u>949,583</u>	<u>855,061</u>
Depreciation	438,704	384,104
Total operating expenses	<u>3,329,974</u>	<u>3,240,898</u>
Operating loss	<u>(2,851,787)</u>	<u>(2,803,694)</u>
NONOPERATING REVENUES (EXPENSE)		
General appropriation from Western Kentucky University	1,221,960	1,073,855
Grants from Corporation for Public Broadcasting	1,150,477	1,152,499
Indirect administrative support	604,773	596,726
Subscriptions and memberships	30,894	39,570
Miscellaneous income	44,786	26,345
Interest expense	(33,029)	(39,150)
Net nonoperating revenues	<u>3,019,861</u>	<u>2,849,845</u>
Change in net position	168,074	46,151
Net position, beginning of year	<u>1,536,574</u>	<u>1,490,423</u>
Net position, end of year	<u>\$ 1,704,648</u>	<u>\$ 1,536,574</u>

See accompanying notes to financial statements.

WESTERN KENTUCKY UNIVERSITY
WKYU-TV
STATEMENTS OF CASH FLOWS
Years ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities		
Business and industry underwriting received	\$ 8,802	\$ 13,997
Other operating revenues/in-kind	10,335	11,739
Production revenue received	460,058	410,460
Payments to employees	(1,120,536)	(1,196,278)
Payments to suppliers	<u>(1,770,815)</u>	<u>(1,656,057)</u>
Net cash used in operating activities	<u>(2,412,156)</u>	<u>(2,416,139)</u>
Cash flows from noncapital financing activities		
General appropriations and indirect support from Western Kentucky University	1,826,733	1,670,581
Grants from Corporation for Public Broadcasting	791,628	729,870
Subscriptions and memberships	30,894	39,570
Other noncapital financing activities	<u>44,786</u>	<u>(26,345)</u>
Net cash provided by noncapital financing activities	<u>2,694,041</u>	<u>2,466,366</u>
Cash flows from capital financing activities		
Purchase of capital assets	(176,230)	(252,044)
Payments for interest on long-term debt	(33,029)	(39,150)
Principal payment on long-term debt	<u>(245,869)</u>	<u>(239,748)</u>
Net cash used in capital financing activities	<u>(455,129)</u>	<u>(530,942)</u>
Decrease in cash	(173,243)	(480,715)
Cash, beginning of year	<u>1,384,834</u>	<u>1,865,549</u>
Cash, end of year	<u>\$ 1,211,591</u>	<u>\$ 1,384,834</u>
Reconciliation of net operating loss to net cash flows used in operating activities		
Operating loss	\$ (2,851,787)	\$ (2,803,694)
Depreciation	438,704	384,104
Changes in operating assets and liabilities		
Accounts receivable/notes payable	1,008	(1,008)
Prepaid expenses	(6,300)	3,227
Accrued expenses	<u>6,219</u>	<u>1,232</u>
Net cash used in operating activities	<u>\$ (2,412,156)</u>	<u>\$ (2,416,139)</u>

See accompanying notes to financial statements.

WESTERN KENTUCKY UNIVERSITY
WKYU-TV
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 1 – NATURE OF OPERATIONS

WKYU-TV (the “Station”) is an education television station operated by and receiving support from Western Kentucky University (the “University”), Bowling Green, Kentucky. The Station is not considered a component unit but rather an operating unit of the University and financial activity is included in the financial statements of the University.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The Station prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (“GASB”). The financial statement presentation provides a comprehensive, entity-wide perspective of the Station’s assets, liabilities, net position, revenues, expenses, changes in net position and cash flows. The Station’s financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

As discussed in Note 1, the financial statements of the Station are intended to present the financial position, the changes in financial position and cash flows, of only that portion of the activities of Western Kentucky University that is attributable to the transactions of the Station. They do not purport to, and do not, present fairly the financial position of Western Kentucky University as of June 30, 2014 and 2013, and the changes in its financial position and its cash flows, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Revenue Recognition: Contributions, pledges and grants are recorded as revenue in the accompanying statements of activities. In-kind contributions, other than the contribution from the University, are recognized as revenue at the estimated fair value at the date of the gift.

The portion of the University’s indirect costs attributable to the Station’s operations and the value of space provided for broadcast facilities are included as revenues and expenses, and are computed in accordance with guidelines established by the Corporation for Public Broadcasting (“CPB”). Total indirect administrative support from the University for the years ended June 30, 2014 and 2013 were \$604,773 and \$596,726, respectively.

Expenses: When an expense is incurred for which both restricted and unrestricted net position are available, the Station’s policy is to allow for the flexibility to determine whether to first apply restricted or unrestricted resources based on the most advantageous application of resources in the particular circumstances.

Classification of Revenues: The Station has classified its revenues as either operating or nonoperating revenues according to the following criteria:

- *Operating revenues* – Operating revenues include activities that have the characteristics of exchange transactions, such as business and industry underwriting.

(Continued)

WESTERN KENTUCKY UNIVERSITY
WKYU-TV
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- *Nonoperating revenues* – Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions and other revenue sources that are defined as nonoperating revenues by GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Government Entities That Use Proprietary Fund Accounting*, and GASB No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities* such as appropriations and investment income.

Cash on Deposit with University: For administrative purposes, cash balances of the Station are included in bank accounts maintained by the University and the Western Kentucky University Foundation (the "Foundation"). Details of accounting transactions affecting cash are maintained by each entity.

The University currently uses commercial banks and the Commonwealth of Kentucky (the "Commonwealth") as depositories. Deposits with commercial banks are covered by federal depository insurance or collateral held by the University's agent in the University's name. At the Commonwealth level, the University's accounts are pooled with other agencies of the Commonwealth. These Commonwealth pooled deposits are substantially covered by federal depository insurance or by collateral held by the Commonwealth's agent in the Commonwealth's name.

The Foundation's cash is on deposit with commercial banks and is federally insured up to \$250,000 per bank by the Federal Deposit Insurance Corporation ("FDIC").

Capital Assets: Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset and is not allocated to functional expense categories. Equipment with an estimated useful life of greater than one year and a cost of \$5,000 is capitalized and depreciated with one-half year's depreciation taken during the year of purchase or donation. Construction in progress is capitalized when incurred. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred or when the project was closed and is identified as projects less than \$100,000. The Station continues to track equipment with a cost of \$500 or more for insurance purposes consistent with applicable Kentucky Revised Statutes but does not capitalize items at these lower thresholds. The following estimated useful lives are being used by the Station:

- | | |
|--|---------------|
| • Buildings and building improvements | 15 - 40 years |
| • Furniture, fixtures and equipment | 3 - 15 years |
| • Land improvements and infrastructure | 20 years |

Unearned Revenue: Unearned revenue includes grant funding received from the Corporation of Public Broadcasting ("CPB") that has not been expended at the end of the fiscal year. CPB provides funds to the Station at the beginning of a funding period. Thus, any unspent CPB funds at the end of the fiscal year are recorded as unearned revenue until qualifying expenses have been incurred.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses and other changes in net position during the reporting period. Actual results could differ from those estimates.

(Continued)

WESTERN KENTUCKY UNIVERSITY
WKYU-TV
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements Adopted/Implemented:

- GASB Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*, issued June 2012. The provisions of this Statement are effective for periods beginning after June 15, 2013. This Statement is intended to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This Statement is not directly applicable to the Station, but applies to the defined benefit pension plans that the Station participates in, through the University which are described in Note 4.

- GASB Statement No. 70, *Accounting and Financial Reporting for Non-exchange Financial Guarantees* - In April 2013, the objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive non-exchange financial guarantees. This Statement requires a government that extends a non-exchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. This liability should be reported until legally released as an obligor. This Statement also requires a government that is required to repay a guarantor for making a payment on a guaranteed obligation or legally assuming the guaranteed obligation to continue to recognize a liability until legally released as an obligor. When released as an obligor, the government should recognize revenue as a result of being relieved of the obligation. This Statement also provides additional guidance for intra-entity non-exchange financial guarantees involving blended component units by specifying the information required to be disclosed by governments that extend non-exchange financial guarantee as well as new information to be disclosed by governments that receive non-exchange financial guarantees. Adoption of this Statement did not have a material impact on the Station's financial statements.

Recent Accounting Pronouncements: As of June 30, 2014, the GASB has issued the following statements not yet implemented by the Station.

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, Issued June 2012. The provisions for this statement are effective for fiscal years beginning after June 15, 2014. This statement is intended to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. The Station's management is working with the Kentucky Teachers Retirement System and the Kentucky Employees Retirement System to determine the impact of this pronouncement on the Station's financial statement.

(Continued)

WESTERN KENTUCKY UNIVERSITY
WKYU-TV
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- GASB Statement No. 69, *Government Combinations and Disposals of Government Operation* - In January 2013, this Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. This Statement requires the use of carrying values to measure the assets and liabilities in a government merger. This Statement also requires measurements of assets acquired and liabilities assumed generally to be based upon their acquisition values. This Statement also provides guidance for transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. This Statement defines the term operations for purposes of determining the applicability of this Statement and requires the use of carrying values to measure the assets and liabilities in a transfer of operations. This Statement provides accounting and financial reporting guidance for disposals of government operations that have been transferred or sold. This Statement requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions. The provisions of this Statement are effective for the Station's fiscal year ended June 30, 2015. Management has not determined what impact, if any, this GASB statement might have on its financial statements.

- GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* – In November 2013, the objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68. The provisions of this Statement are effective for the Station's fiscal year ended June 30, 2015. Management has not determined what impact, if any, this GASB statement might have on its financial statements.

NOTE 3 – CAPITAL ASSETS

Capital assets consist of equipment. Capital asset activity for the year ended June 30, 2014 is as follows:

	<u>Balance</u> <u>June 30, 2013</u>	<u>Additions</u>	<u>Deletions/ Retirements</u>	<u>Balance</u> <u>June 30, 2014</u>
Capital assets	\$ 7,020,660	\$ 176,230	\$ -	\$ 7,196,890
Less accumulated depreciation	<u>4,848,854</u>	<u>438,704</u>	<u>-</u>	<u>5,287,558</u>
Total capital assets, net	<u>\$ 2,171,806</u>	<u>\$ (262,474)</u>	<u>\$ -</u>	<u>\$ 1,909,332</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
WKYU-TV
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 3 – CAPITAL ASSETS (Continued)

Capital assets consist of equipment. Capital asset activity for the year ended June 30, 2013 is as follows:

	<u>Balance</u> <u>June 30, 2012</u>	<u>Additions</u>	<u>Deletions/ Retirements</u>	<u>Balance</u> <u>June 30, 2013</u>
Capital assets	\$ 6,768,616	\$ 252,044	\$ -	\$ 7,020,660
Less accumulated depreciation	<u>4,464,750</u>	<u>384,104</u>	<u>-</u>	<u>4,848,854</u>
Total capital assets, net	<u>\$ 2,303,866</u>	<u>\$ (132,060)</u>	<u>\$ -</u>	<u>\$ 2,171,806</u>

NOTE 4 – PENSION PLAN

Kentucky Teachers' Retirement System: The University contributes to the Kentucky Teachers' Retirement System ("KTRS"), a cost-sharing, multiple-employer, defined-benefit pension plan administered by the Board of Trustees of KTRS. The plan provides retirement, disability and death benefits to plan members. The Commonwealth of Kentucky assigns the authority to establish and amend benefit provisions to the KTRS Board of Trustees. KTRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, Kentucky 40601 or by calling (502) 573-3266.

Funding for the plan is provided from eligible employees who contribute 6.50% (or 7.16% for employees entering the plan on or after July 1, 2008) of their salary through payroll deductions and the Commonwealth of Kentucky, which also indirectly contributes 14.18% (or 14.84% on behalf of employees entering the plan on or after July 1, 2008) of current eligible employees' salaries to the KTRS through appropriations to the University. The contribution requirements of plan members are established by statute and may be changed only by the Kentucky General Assembly. The University's contributions to KTRS for Station employees for the years ended June 30, 2014, 2013 and 2012 were \$70,024, \$75,078 and \$77,786, respectively, which equaled the required contributions for each year.

Kentucky Employees' Retirement System: The University contributes to the Kentucky Employees' Retirement System ("KERS"), a cost-sharing, multiple-employer, defined-benefit pension plan administered by the Board of Trustees of KERS. The plan provides retirement, disability and death benefits to plan members. The Commonwealth of Kentucky assigns the authority to establish and amend benefit provisions to the KERS Board of Trustees. KERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601 or by calling (502) 564-4646.

(Continued)

WESTERN KENTUCKY UNIVERSITY
WKYU-TV
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 4 – PENSION PLAN (Continued)

Plan members are required to contribute 5.00% (or 6.00% for employees entering the plan on or after September 1, 2008) of their annual covered salary, and the University is required to contribute at an actuarially determined rate. The current rate is 16.98% of annual covered payroll. University police officers participate in the Hazardous Duty Division of KERS. The officers are required to contribute 8.00% (or 9.00% for officers entering the plan on or after September 1, 2008) of their annual covered salary, and the University is required to contribute at an actuarially determined rate. The current rate is 26.12% of annual covered payroll. The contribution requirements of plan members are established by statute and may be changed only by the Kentucky General Assembly. The University's contributions to the KERS for station employees for the years ended June 30, 2014, 2013 and 2012 were \$35,519, \$34,474 and \$21,519, respectively, which equaled the required contributions for each year.

Optional Retirement Plan: University faculty and administrative staff hired after July 1, 1996, have the option of participating in the Optional Retirement Program, a defined contribution pension plan. The plan is administered by one of three providers chosen by the employee. The plan provides retirement benefits to plan members. Benefit provisions are contained in the plan document and were established and may be amended by action of the Commonwealth of Kentucky. Contribution rates for plan members and the University expressed as a percentage of covered payrolls were 6.16% and 13.84%, respectively. Of the University's 13.84% contribution, 5.10% is paid to Kentucky Teachers' Retirement System for unfunded liabilities. Contributions actually made during 2014, 2013 and 2012 for the Station were aggregated as \$4,347, \$6,041 and \$10,651, respectively.

NOTE 5 – NATURAL AND FUNCTIONAL CLASSIFICATIONS OF OPERATING EXPENSES

The Station's operating expenses by natural classification were as follows:

	Natural Classification 2014				
	Compensation and Benefits	Other	Non- capitalized Property	Depreciation	Total
Program and supporting services	\$ 1,126,755	\$ 1,764,515	\$ -	\$ -	\$ 2,891,270
Depreciation	-	-	-	438,704	438,704
Total operating expenses	\$ 1,126,755	\$ 1,764,515	\$ -	\$ 438,704	\$ 3,329,974
	Natural Classification 2013				
	Compensation and Benefits	Other	Non- capitalized Property	Depreciation	Total
Program and supporting services	\$ 1,197,510	\$ 1,659,284	\$ -	\$ -	\$ 2,856,794
Depreciation	-	-	-	384,104	384,104
Total operating expenses	\$ 1,197,510	\$ 1,659,284	\$ -	\$ 384,104	\$ 3,240,898

(Continued)

WESTERN KENTUCKY UNIVERSITY
WKYU-TV
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 6 – LONG-TERM OBLIGATIONS

The following is a summary of long-term obligation transactions for the Station for the year ended June 30, 2014:

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2014</u>	<u>Current</u> <u>Portion</u>
PNC Master Lease, Television Production Truck	\$ 1,293,739	\$ -	\$ (245,869)	\$1,047,870	\$ 252,146
	<u>\$ 1,293,739</u>	<u>\$ -</u>	<u>\$ (245,869)</u>	<u>\$1,047,870</u>	<u>\$ 252,146</u>

The following is a summary of long-term obligation transactions for the Station for the year ended June 30, 2013:

	<u>Balance</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2013</u>	<u>Current</u> <u>Portion</u>
PNC Master Lease, Television Production Truck	\$ 1,533,487	\$ -	\$ (239,748)	\$1,293,739	\$ 245,869
	<u>\$ 1,533,487</u>	<u>\$ -</u>	<u>\$ (239,748)</u>	<u>\$1,293,739</u>	<u>\$ 245,869</u>

On September 11, 2011, the University entered into a Master Lease Agreement with PNC Bank. Under the provisions of this agreement, the total principal balance was drawn and held in an escrow account and dispersed as needed to pay costs associated with the acquisition of a Television Production Truck. The annual percentage rate for this financing is 3.49%. Payments of principal and interest of \$278,898 are due annually, and began on October 23, 2011.

Debt service requirements on the long-term debt at June 30, 2014, were as follows:

Year ending June 30	<u>Total to</u> <u>be Paid</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 278,898	\$ 252,146	\$ 26,752
2016	278,898	258,583	20,315
2017	278,898	265,185	13,713
2018	<u>278,898</u>	<u>271,956</u>	<u>6,943</u>
	<u>\$ 1,115,592</u>	<u>\$ 1,047,870</u>	<u>\$ 67,723</u>

(Continued)

WESTERN KENTUCKY UNIVERSITY
WKYU-TV
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 7 – RISK MANAGEMENT

The Station and University are exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters and employee health and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than those related to workers' compensation, employee health and certain natural disasters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

In 2006, the University opted out of the Kentucky public entity risk pool and began self-insuring workers' compensation claims. The University contracts with a third-party administrator for administration services related to workers' compensation claims.