

**WUOT-FM RADIO
A PUBLIC BROADCAST STATION
OPERATED BY
THE UNIVERSITY OF TENNESSEE,
KNOXVILLE**

**FINANCIAL REPORT
December 8, 2011**

Kasandra G. Atwood
Auditor in Charge

Judith A. Burns
Interim Executive Director

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December 8, 2011

Ms. Regina N. Dean
Director
WUOT-FM
The University of Tennessee, Knoxville
209 Communications Building

Dear Ms. Dean:

Enclosed are the audited financial statements for the fiscal year ended June 30, 2011, for WUOT-FM which support the online filing of the Schedule of Nonfederal Financial Support required for the Corporation for Public Broadcasting.

Thank you for your cooperation and courtesy extended by everyone in the process. If you have any questions concerning this report, or if we can assist you further, please call.

Sincerely,

Judith A. Burns
Interim Executive Director

A11022 sjg

c: Dr. Jimmy G. Cheek
Mr. Chris Cimino
Dr. Joseph A. DiPietro
Mr. James R. Maples
Ms. Margie Nichols
Mr. Charles M. Peccolo Jr.
Audit Committee

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December 8, 2011

Ms. Nadine M. Feaster
Director, Office of Grants Administration
Corporation for Public Broadcasting
401 Ninth Street NW
Washington, DC 20004-2129

Dear Ms. Feaster:

We have audited the accompanying statements of net assets of WUOT -FM, a department of the University of Tennessee, as of June 30, 2011 and 2010, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the station's management. Our responsibility is to express an opinion on the financial statements based on our audits.

Our audits were conducted in accordance with auditing standards generally accepted in the United States of America except as noted in the following paragraph. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

We are not independent in accordance with auditing standards generally accepted in the United States of America. However, we meet the qualifications for the purpose of expressing an opinion on the aforementioned financial statements under the requirements for internal auditors in the Corporation for Public Broadcasting's (CPB) Financial Reporting Guidelines for FY 2011 and FY 2010.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of WUOT-FM as of June 30, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. This report is intended solely for the information and use of the CPB and is not intended to be and should not be used by anyone other than this specified party.

Management's Discussion and Analysis presented on pages 5 to 9 is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries to management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules of functional expenditures are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Sincerely,

Everett L. Hurt III, CPA
Manager

WUOT-FM RADIO
THE UNIVERSITY OF TENNESSEE, KNOXVILLE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2011 AND 2010

This section of the University of Tennessee's WUOT-FM Radio's annual financial report presents a discussion and analysis of the financial performance of WUOT-FM during the fiscal year ended June 30, 2011, with comparative information presented for the fiscal year ended June 30, 2010. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the independent auditor's report and the audited financial statements and accompanying notes. The financial statements, notes, and this discussion are the responsibility of management.

Using This Annual Report

This report consists of three basic financial statements. The statement of net assets; the statement of revenues, expenses, and changes in net assets; and the statement of cash flows provide information on WUOT-FM 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 Statement of Net Assets

The statement of net assets presents the financial position of the station at the end of the fiscal year and includes all assets and liabilities of the radio station. The difference between total assets and total liabilities—net assets—is an indicator of the current financial condition of the station. Assets and liabilities are generally measured using current values. Capital assets, however, are stated at historical cost less an allowance for depreciation.

Net assets are divided into three major categories. The first category, invested in capital assets, provides the station's equity in property, plant, and equipment owned by the radio station. The next asset category, restricted net assets, is divided into two categories, nonexpendable and expendable. The corpus of nonexpendable restricted resources is available only for investment purposes. Expendable restricted net assets are 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 assets, which are available to the station for any lawful purpose.

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

Current liabilities include the current portion of compensated absences. Noncurrent liabilities include the long-term portion of compensated absences.

The Statement of Net Assets appears on page 10.

WUOT-FM RADIO
 THE UNIVERSITY OF TENNESSEE, KNOXVILLE
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 YEARS ENDED JUNE 30, 2011 AND 2010

The Statement of Revenues, Expenses, and Changes in Net Assets

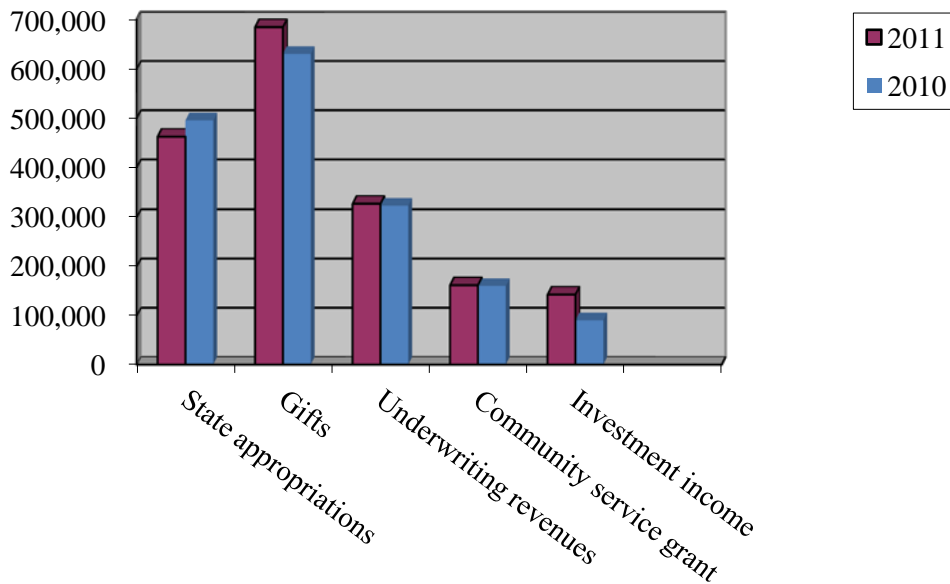
The statement of revenues, expenses, and changes in net assets presents the operating results of the station, as well as the nonoperating revenues and expenses. Annual state appropriations, while budgeted for operations, are considered nonoperating revenues according to accounting principles generally accepted in the United States. 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 Statement of Revenues, Expenses, and Changes in Net Assets appears on page 11.

Revenues

Table 1 below illustrates revenues by source (operating and nonoperating) which were used to fund the station’s operating activities for the years ended June 30, 2011, and June 30, 2010.

Table 1. Revenue by Source



For the 2011 fiscal year, the largest percentage of WUOT-FM Radio’s revenue was received from listener support: 39 percent from gifts and 18 percent from underwriting. Another major source of funding was state appropriations, which represented 26 percent of total revenue during the year ended June 30, 2011.

WUOT-FM RADIO
 THE UNIVERSITY OF TENNESSEE, KNOXVILLE
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 YEARS ENDED JUNE 30, 2011 AND 2010

Expenses

Operating expenses can be displayed in two formats, natural classification and functional classification. Both formats are displayed below.

Year Ended June 30, 2011

Functional Classification	Natural Classification			Total
	Salaries and Benefits	Other Operating	Depreciation	
Programming and production	\$ 379,117	\$ 475,946		\$ 855,063
Broadcasting	77,649	269,317		346,967
Program information and promotion	55,336	780		56,116
Management and general	236,202	39,842		276,044
Fundraising and membership development	53,416	77,121		130,537
Underwriting and grant solicitation	65,471	2,301		67,771
Depreciation			16,925	16,925
Total Expenses	\$ 867,191	\$ 865,306	\$ 16,925	\$ 1,749,423

Year Ended June 30, 2010

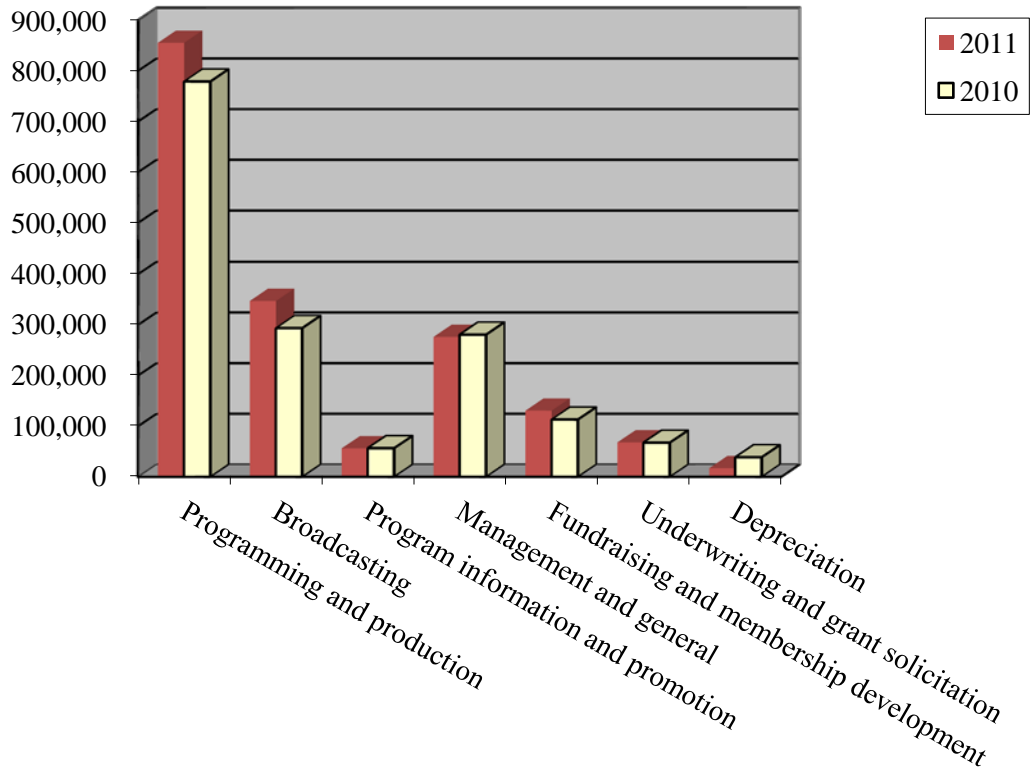
Functional Classification	Natural Classification			Total
	Salaries and Benefits	Other Operating	Depreciation	
Programming and production	\$ 281,515	\$ 445,088		\$ 726,603
Broadcasting	115,620	152,075		267,695
Program information and promotion	55,261	1,200		56,461
Management and general	238,260	42,250		280,510
Fundraising and membership development	53,696	59,377		113,073
Underwriting and grant solicitation	67,402			67,402
Depreciation			38,630	38,630
Total Expenses	\$ 811,754	\$ 699,990	\$ 38,630	\$ 1,550,374

Natural classification shows the type of expenses regardless of program. For the 2011 fiscal year, 50 percent of operating expenses is attributed to salaries and benefits. Other operating expenses represent 49 percent of total expenses. The remaining 1 percent is depreciation.

For fiscal year 2011, 49 percent of expenses by function is attributable to programming and production, as noted in Table 2 below. Broadcasting expenses comprise 20 percent, and management and general expenses account for 16 percent. The percentages for the remaining functional areas range from 1 to 7 percent of total expenses.

WUOT-FM RADIO
 THE UNIVERSITY OF TENNESSEE, KNOXVILLE
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 YEARS ENDED JUNE 30, 2011 AND 2010

Table 2. Expenses by Function



The Statement of Cash Flows

The statement of cash flows provides information about cash receipts and cash payments during the year. This statement also assists users in assessing the station's ability to generate net cash flows, its ability to meet its obligations as they come due, and its need for external financing.

Operating cash outlays consist of payments to suppliers and vendors, payments to employees, and payments for benefits. The primary cash receipts from noncapital financing activities are gifts and state appropriations. Investing activity reflects the interest on investments and the purchase of new investments.

The Statement of Cash Flows appears on page 12.

Capital Assets

At June 30, 2011, WUOT-FM had \$63,936 invested in capital assets, net of accumulated depreciation of \$616,746. Depreciation charges totaled \$16,925 for the current fiscal year. These assets were comprised of equipment.

WUOT-FM RADIO
THE UNIVERSITY OF TENNESSEE, KNOXVILLE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2011 AND 2010

Economic Factors that Will Affect the Future

A primary economic factor facing WUOT-FM is the state of Tennessee's funding through the university. As in years past, the state continues to reduce funding to the university. Approximately 26 percent of annual funding flows through the university, and additional reductions in state funding could have an adverse effect on station 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 S. David Williamson, assistant director, WUOT, the University of Tennessee, 209 Communications Building, Knoxville, Tennessee 37996-0322.

WUOT-FM RADIO
THE UNIVERSITY OF TENNESSEE, KNOXVILLE
STATEMENT OF NET ASSETS
YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
Assets		
Current assets		
Cash and cash equivalents	\$ 496,374	\$ 557,604
Investments	750,184	661,249
Total current assets	1,246,558	1,218,853
Noncurrent assets		
Investments	83,351	73,470
Capital assets, less accumulated depreciation	63,936	80,861
Total noncurrent assets	147,287	154,331
Total assets	1,393,845	1,373,184
Liabilities		
Current liabilities		
Compensated absences	49,733	53,054
Total current liabilities	49,733	53,054
Noncurrent liabilities		
Compensated absences	27,544	30,953
Total liabilities	77,277	84,007
Net Assets		
Invested in capital assets	63,936	80,861
Restricted:		
Nonexpendable		
Programming	83,351	73,470
Expendable		
Programming	370,832	346,680
Unrestricted	798,448	788,166
Total net assets	\$ 1,316,568	\$ 1,289,177

The Notes to the Financial Statements are an integral part of this statement.

WUOT-FM RADIO
THE UNIVERSITY OF TENNESSEE, KNOXVILLE
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
Revenues		
Operating revenues	\$ -	\$ -
Total operating revenues	-	-
Expenses		
Operating expenses:		
Program services		
Programming and production	855,063	726,603
Broadcasting	346,967	267,695
Program information and promotion	56,116	56,461
Support services		
Management and general	276,044	280,510
Fundraising	130,537	113,073
Underwriting and grant solicitation	67,771	67,402
Depreciation	16,925	38,630
Total operating expenses	1,749,423	1,550,374
Operating income (loss)	(1,749,423)	(1,550,374)
Nonoperating Revenues		
State appropriations	461,771	495,042
Subscriptions and memberships	684,414	629,929
Underwriting	326,902	322,908
Community service grants	161,380	159,799
Gain/(Loss) on investments	142,347	90,073
Net nonoperating revenues	1,776,814	1,697,751
Income before other revenues, expenses, gains, or losses	27,391	147,377
Other Revenue		
Additions to permanent endowments	-	-
Change in net assets	27,391	147,377
Net Assets		
Net assets, beginning of year	1,289,177	1,141,800
Net assets, end of year	\$ 1,316,568	\$ 1,289,177

The Notes to the Financial Statements are an integral part of this statement.

WUOT-FM RADIO
THE UNIVERSITY OF TENNESSEE, KNOXVILLE
STATEMENT OF CASH FLOWS
YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
Cash Flows from Operating Activities		
Cash payments to suppliers and vendors	\$ (865,306)	\$ (674,209)
Cash payments to employees	(873,921)	(837,084)
Net cash used in operating activities	(1,739,227)	(1,511,293)
 Cash Flows from Noncapital Financing Activities		
Cash received from underwriting income	326,902	322,908
Cash received from state appropriations	461,771	495,042
Cash received from subscriptions and memberships	684,414	629,929
Cash received from community service grants	161,380	159,799
Cash received from private gifts for endowment purposes	-	-
Net cash provided	1,634,467	1,607,678
 Cash Flows from Capital and Related Financing Activities		
Purchase of capital assets	-	25,781
Net cash provided (used)	-	25,781
 Cash Flows from Investing Activities		
Purchase of investments	-	-
Investment income	43,530	47,710
Net cash provided	43,530	47,710
 Net increase (decrease) in cash and cash equivalents	(61,231)	118,314
Cash and cash equivalents at beginning of year	557,604	439,290
Cash and cash equivalents at end of year	\$ 496,373	\$ 557,604
 Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating loss	\$ (1,749,423)	\$ (1,550,374)
Adjustments to reconcile		
Depreciation	16,925	38,630
Changes in assets and liabilities		
Compensated absences	(6,730)	451
Cash flows from operating activities	\$ (1,739,227)	\$ (1,511,293)

The Notes to the Financial Statements are an integral part of this statement.

WUOT-FM RADIO
THE UNIVERSITY OF TENNESSEE, KNOXVILLE
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2011 AND 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

WUOT-FM Radio is operated by the University of Tennessee, Knoxville. The station is managed by the University's Radio Center, which is a part of the Knoxville campus. 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 for the radio station have been prepared in conformity with the accounting practices established by the Corporation for Public Broadcasting (CPB).

Basis of Accounting

For financial statement purposes, WUOT-FM follows pronouncements issued by the Governmental Accounting Standards Board (GASB) due to its relationship with the University of Tennessee 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 a liability is incurred, regardless of the timing of related cash flows. Gifts, grants, 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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed to the extent that those standards do not conflict with or contradict the guidance of GASB. The station has the option of following private-sector guidance issued subsequent to November 30, 1989, subject to the above limitation. The station has elected not to follow private-sector guidance issued subsequent to November 30, 1989.

The station has no operating revenues. Operating expenses for the station include: 1) programming and production, 2) broadcasting, 3) program information and promotion, 4) management and general, 5) fundraising and membership development, 6) underwriting and grant solicitation, and 7) depreciation.

All other activity is nonoperating in nature. This activity includes: 1) community service grants, 2) state appropriations, 3) investment income, 4) underwriting revenues, 5) additions to permanent endowments, 6) gifts, including memberships and subscriptions, 7) auction revenues, and 8) Public Telecommunications Facilities Programming (PTFP) grants.

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

WUOT-FM RADIO
THE UNIVERSITY OF TENNESSEE, KNOXVILLE
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2011 AND 2010

Capital Assets

Capital assets, which include only equipment, are reported in the statement of net assets at historical cost or at fair value at date of donation, less accumulated depreciation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets' useful lives are not capitalized.

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 life of the assets, which ranges from 5 to 20 years.

Net Assets

The station's net assets are classified as follows.

Invested in capital assets: This represents the station's total investment in capital assets, net of accumulated depreciation. The station has no related debt.

Expendable restricted net assets: Expendable restricted net assets include 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 assets: Nonexpendable restricted net assets consist 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 assets: Unrestricted net assets represent resources derived from state appropriations, gifts, grants, underwriting revenues, and investment income. These resources are used for transactions relating to the general operations of the station and may be used at the discretion of the station to meet current expenses for any purpose.

Cash and Cash Equivalents

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 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.

Investments

Investments are valued at fair value. Disclosures as to custodial credit risk, interest rate risk, credit risk, concentration of credit risk, and foreign currency risk are presented in the university's financial statements.

WUOT-FM RADIO
THE UNIVERSITY OF TENNESSEE, KNOXVILLE
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2011 AND 2010

Compensated Absences

The university's employees accrue annual leave at varying rates, depending on length of service or classification. 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 and their related benefits is reported in the statement of net assets.

Income Taxes

As part of the university, the station is exempt from federal income taxes under Section 115 of the *Internal Revenue Code*.

NOTE 2. 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, 2011, and June 30, 2010, WUOT received indirect administrative support totaling \$153,448 and \$132,008, respectively. These amounts are not reflected in the accompanying financial statements.

NOTE 3. OPERATING LEASES

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

Expenses under the lease were \$13,300/year for the year ended June 30, 2010, and \$13,370/year for the year ended June 30, 2011. The following is a schedule by years of future minimum rental payments (based on the current Consumer Price Index) required under the lease as of June 30, 2011.

	Year Ended June 30
2011	\$ 13,370
2012	13,370
Total minimum payments required	<u>\$ 26,740</u>

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

WUOT-FM RADIO
THE UNIVERSITY OF TENNESSEE, KNOXVILLE
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2011 AND 2010

NOTE 4. CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2011, and June 30, 2010, is as follows.

Year Ended June 30, 2011

	Beginning Balance	Additions	Reductions	Ending Balance
Equipment	\$ 680,682			\$ 680,682
Less: accumulated depreciation	(599,821)	(16,925)		(616,746)
Capital assets, net	<u>\$ 80,861</u>	<u>\$ (16,925)</u>	<u>\$ -</u>	<u>\$ 63,936</u>

Year Ended June 30, 2010

	Beginning Balance	Additions	Reductions	Ending Balance
Equipment	\$ 654,901	25,781		\$ 680,682
Less: accumulated depreciation	(561,191)	(38,630)		(599,821)
Capital assets, net	<u>\$ 93,710</u>	<u>\$ (12,849)</u>	<u>\$ -</u>	<u>\$ 80,861</u>

NOTE 5. LONG-TERM LIABILITIES

Long-term liability activity for the years ended June 30, 2011, and June 30, 2010, is as follows.

Year Ended June 30, 2011

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Compensated absences	\$ 84,007	\$ 43,004	\$ 49,733	\$ 77,277	\$ 49,733

Year Ended June 30, 2010

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Compensated absences	\$ 83,556	\$ 53,505	\$ 53,054	\$ 84,007	\$ 53,054