

STATE BOARD OF ACCOUNTS
302 West Washington Street
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INDIANAPOLIS, INDIANA 46204-2769

AUDIT REPORT
OF

WTIU-TV, A PUBLIC TELECOMMUNICATIONS ENTITY
OWNED AND OPERATED BY INDIANA UNIVERSITY
BLOOMINGTON, INDIANA

July 1, 2011 to June 30, 2012



FILED
01/30/2013

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UNIVERSITY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
University President	Dr. Michael A. McRobbie	07-01-11 to 06-30-13
University Senior Vice President and Chief Financial Officer	Dr. Neil D. Theobald MaryFrances McCourt (Interim)	07-01-11 to 12-31-12 01-01-13 to 06-30-13
University Associate Vice President and Treasurer	MaryFrances McCourt	07-01-11 to 06-30-13
Director of Radio and TV Services	Perry Metz	07-01-11 to 06-30-13
Chairman of the Board of Trustees	William R. Cast, M.D.	08-14-10 to 08-16-14



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF WTIU-TV, A PUBLIC TELECOMMUNICATIONS ENTITY
OWNED AND OPERATED BY INDIANA UNIVERSITY, BLOOMINGTON, INDIANA

We have audited the accompanying financial statements of WTIU-TV (Station), a public telecommunications entity owned and operated by Indiana University, as of and for the years ended June 30, 2012 and 2011, which collectively comprise the Station's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Station's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of WTIU-TV, as of June 30, 2012 and 2011, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, as listed in the Table of Contents, 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.

STATE BOARD OF ACCOUNTS

Bruce A. Hartman, CPA
State Examiner

January 14, 2013

WTIU-TV
A Public Telecommunications Entity Owned and Operated by Indiana University
Management's Discussion and Analysis
June 30, 2012 and June 30, 2011

WTIU-TV (the Station) presents its audited financial statements for the year ending June 30, 2012, along with comparative data for the year ending June 30, 2011. Three statements are described in the following discussion and analysis: The Statement of Net Assets, which presents the assets, liabilities, and net assets of the Station as of the end of the fiscal year; the Statement of Revenues, Expenses, and Changes in Net Assets, which reflects revenues and expenses recognized during the fiscal year; and the Statement of Cash Flows, which provides information on all of the cash inflows and outflows for the Station by major category during the fiscal year. Analysis will be provided for major variances from fiscal year 2012 to 2011. Included in this review are "Capital Assets" and the "Economic Outlook."

Statement of Net Assets

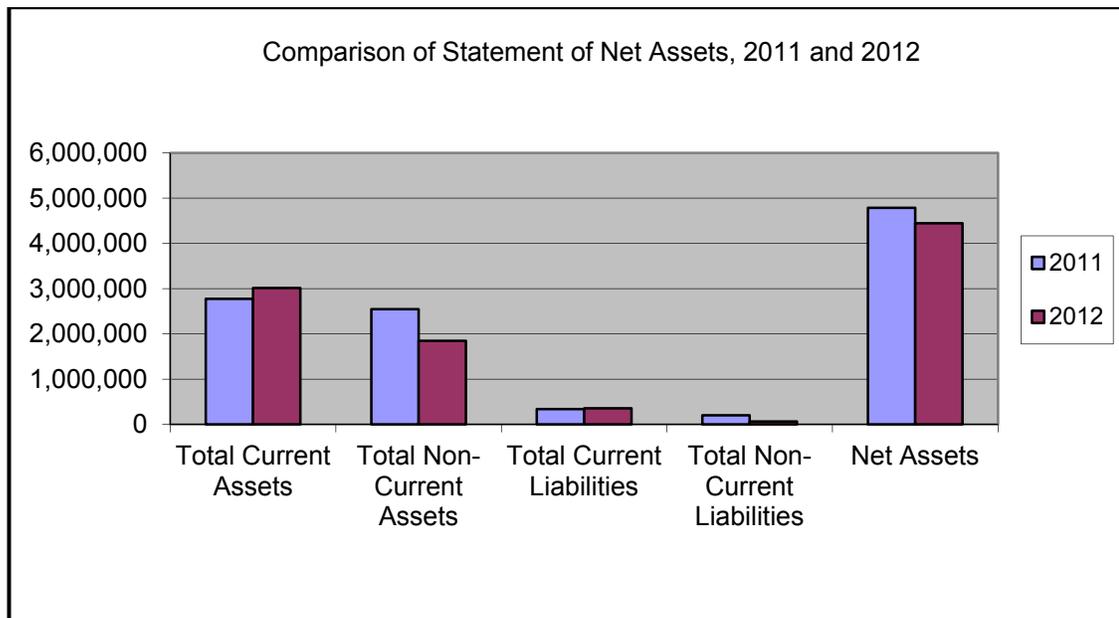
Total assets at June 30, 2012, were \$4,863,204, a decrease of \$461,421. Capital net assets comprised \$1,847,118 of the total assets.

Total liabilities were \$417,867 at June 30, 2012, a decrease of \$119,856. Non-current liabilities were 15% or \$62,825 of the liabilities at June 30, 2012. The Station had no outstanding debt obligations.

Total net assets at June 30, 2012, were \$4,445,337, a \$341,565 decrease from the prior year, or a 7% decrease in net assets. The breakout of net assets is shown below:

Capital assets	\$ 1,847,118
Restricted Net Assets	204,564
Unrestricted net assets	<u>2,393,655</u>
Total net assets	<u>\$ 4,445,337</u>

The composition of current and non-current assets and liabilities is displayed below for both the 2011 and 2012 fiscal year-ends:



WTIU-TV
 A Public Telecommunications Entity Owned and Operated by Indiana University
 Management's Discussion and Analysis
 June 30, 2012 and June 30, 2011

Statement of Revenues, Expenses, and Changes in Net Assets

Revenues

Operating revenues at WTIU-TV for the June 30, 2012, fiscal year increased by 15% from the previous year. Operating revenue changes were the result of the following factors:

- Sales and services (including royalty and event income) increased by \$92,664.
- Miscellaneous grants increased by \$192,156.

Total non-operating revenues were down 1.8%, from \$4,137,917 in fiscal year 2011 to \$4,063,417 in fiscal year 2012. Non-operating revenue changes were the result of the following factors:

For Indiana University-Bloomington support:

- Indiana University-Bloomington campus general fund support for TV increased by \$106,206. Indiana University donated administrative support was \$410,688, up \$24,796 from the prior year. This is based on the Station's prorated share of the Indiana University-Bloomington campus Institutional Support costs.

For contributions:

- Individual contributions were \$532,567, an increase of 5.4% over the prior year.
- Corporate and foundation contributions were \$247,728 a decrease of 10.6% from the prior year.
- The Station received an additional \$3,152 endowment gift as seed money for the Al Cobine Endowment fund for jazz programming.
- In-kind support was \$3,000, slightly less than the prior year.

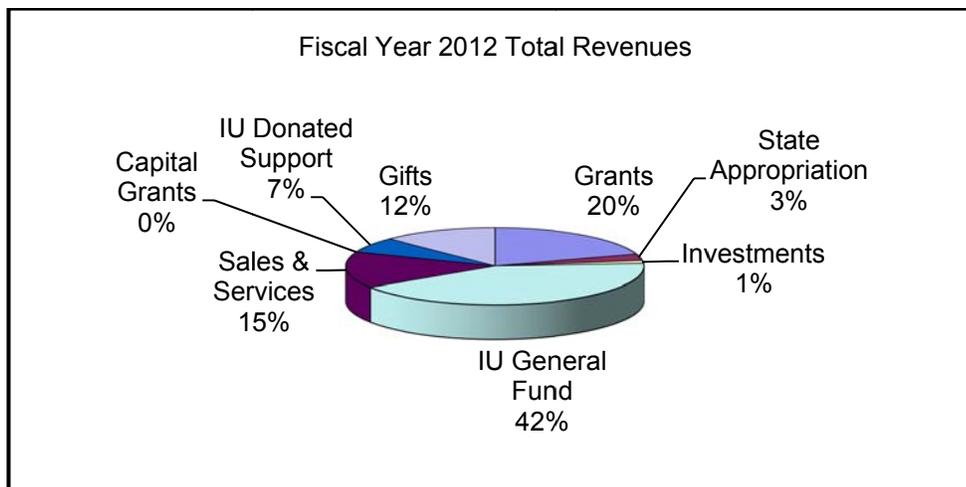
For other non-operating income:

- Interest and dividends earned by the Indiana University Foundation Pooled funds increased 7.5%.

For capital:

- The Station received \$3,614 in capital funding, down \$316,445 from the prior year.

In summary, total revenues of the Station decreased by \$99,845 from \$6,378,089 in 2011 to \$6,278,244 in 2012, an overall decrease of 1.57%. The compositions of these revenues are displayed in the following graph:



WTIU-TV
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Expenses

Operating expenses were \$6,430,898 for the 2012 fiscal year. This was an increase over the previous fiscal year of \$141,327 or 2.3%. Changes in the major categories of expenses were:

For all functional areas:

- Professional and support staff received a 2.2% salary increase. The professional staff fringe benefit rate increased slightly by 0.2% for non-grant accounts, but 14.4% for grant accounts. The support staff fringe benefit rate increased by 3.3%.
- Accrued vacation and sick leave liability expense decreased by \$193,619.

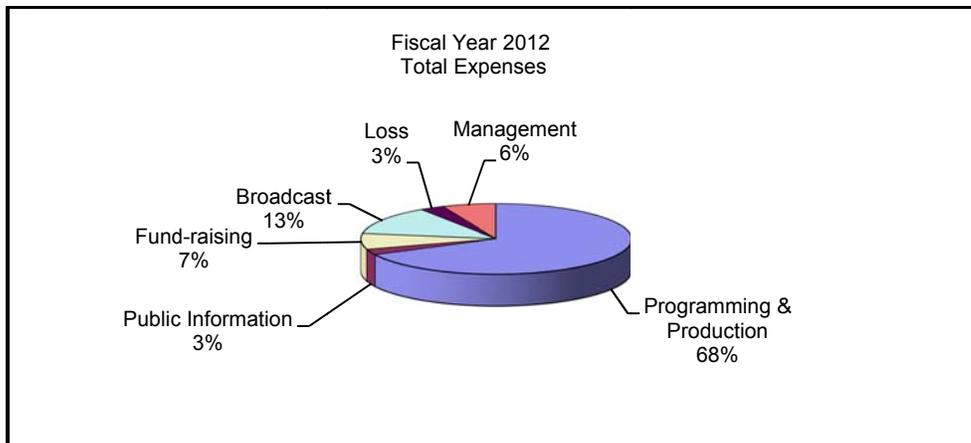
For specific functional areas:

- Programming and production costs increased \$427,565, reflecting the additional PBS dues increase, terminal pay, and early retirement benefits for several departing staff members who were not replaced.
- Broadcasting costs decreased 17% due to the completion of the conversion to digitally compatible TV studio/control room production equipment.
- Public information and promotion costs decreased by \$75,050.
- Management and general expenses decreased \$39,910 by 9%.
- Fund-raising, membership development, and underwriting solicitation costs remained steady.

For non-operating income:

- A decrease in the market value of the Station's investments in the Indiana University Foundation Pooled Long-Term Fund resulted in an unrealized loss of \$151,635.
- The Station also had a non-operating loss of \$37,276 on the disposal of capital assets.

The composition of total expenses, including operating and non-operating, are displayed below by major category:



Net Assets

Net assets decreased by \$341,565 in 2012, compared to a \$77,755 increase in net assets in 2011. The operating loss decreased \$149,773 from the previous fiscal year and the net non-operating revenues decreased by \$252,648. Ending net assets were \$4,445,337, compared to ending net assets in 2011 of \$4,786,902. This was a 7% decrease in net assets.

WTIU-TV
A Public Telecommunications Entity Owned and Operated by Indiana University
Management's Discussion and Analysis
June 30, 2012 and June 30, 2011

Statement of Cash Flows

The Statement of Cash Flows provides a means to assess the financial health of the Station by providing relevant information about the cash receipts and cash payments of the Station during a certain period. It assists the user in determining whether the Station has the ability to generate future net cash flows to meet its obligation as they come due, and to determine the need for external financing.

Cash Flows for the Period	June 30, 2012	June 30, 2011
Net cash provided (used) by:		
Operating activities	(\$3,266,217)	(\$3,218,951)
Noncapital financing activities	3,572,379	3,462,190
Capital and related financing activities	(6,407)	(211,211)
Investing activities	<u>(64,981)</u>	<u>(165,902)</u>
Net decrease in cash	234,774	(133,874)
Beginning cash and cash equivalent balances	<u>1,095,525</u>	<u>1,229,399</u>
Ending cash and cash equivalent balances	<u>\$1,330,299</u>	<u>\$1,095,525</u>

Cash used by operating activities increased by \$47,266. This increase in the use of cash was the result of increases in operating expenses.

Noncapital financing activities increased by \$110,189. This increase was the result of increases in general fund support and contributions.

Cash used by capital and related financing activities decreased by \$204,804 because we concluded existing grants and the new capital grant will not be reflected until fiscal year 2013. Equipment purchased for less than \$5,000, the capitalization threshold, was recorded as operating expenses.

Cash used by investing activities decreased by \$100,921.

In summary, the net increase of \$234,774 in cash and cash equivalents in 2012 was due primarily to the decrease in capital equipment purchases and the increase in university support.

Capital Assets

At June 30, 2012, the Station had \$1,847,118 invested in capital assets, net of accumulated depreciation. Depreciation charges for the years ending June 30, 2012, and June 30, 2011, totaled \$673,607 and \$730,772, respectively. Details of these assets are shown below:

Net Capital Assets at Year-End	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Transmission, Antenna, and Tower	\$ 371,571	\$ 618,731
Studio and Other Broadcast Equipment	1,475,547	1,929,249
Capital Assets, Net	<u>\$ 1,847,118</u>	<u>\$ 2,547,980</u>

Major capital purchases for the year totaled \$10,621 and included two high definition scan converters.

Very late in fiscal year 2012, the Station was awarded a grant to install an emergency generator at the TV transmitter to allow the station to continue broadcasting after a natural disaster. The primary income and expense for that grant will occur in fiscal year 2013.

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June 30, 2012 and June 30, 2011

Economic Outlook

The next year is likely to be a watershed year for funding of public broadcasting. Nationally, decisions will have to be made about the federal budget. Although the fiscal cliff seems likely to be avoided, cuts in discretionary spending still seem likely. In preparation, management has created a reserve fund to allow for uninterrupted operations even if federal funding experiences a 5-8% decline. At the state level, a new governor will be taking a new look at all state programs. Because state funding for public broadcasting already has been cut by more than 50% over the last several years, we are optimistic that additional cuts will not be enacted. Income from membership and grants continues to increase (more modestly from corporate underwriting) and a new revenue committee has been working for some months to identify additional funding sources. An unanticipated major capital expense (to assist our major client) has been handled and the money will be recovered through increased charges over the next five years. PBS dues have increased by more than \$250,000 over the last two years as part of a national restructuring. Management appealed this formula as unfair through all avenues possible but was denied at each level. The cost has been met by cutting other expenses, not filling positions, and some campus assistance. We expect to continue operating in the black.

WTIU-TV
A PUBLIC TELECOMMUNICATIONS ENTITY OWNED AND OPERATED BY INDIANA UNIVERSITY
STATEMENT OF NET ASSETS
June 30, 2012 and 2011

	2012	2011
<u>Assets</u>		
Current Assets:		
Cash and Cash Equivalents	\$ 1,330,299	\$ 1,095,525
Other Receivables, Net of Allowance for Doubtful Accounts of \$0 in 2012 and \$0 in 2011	47,739	21,531
Costs Incurred for Programming Not Yet Broadcast	3,508	10,530
Prepaid and Other	2,572	11,514
Investments (Note 2)	1,631,968	1,637,545
Total Current Assets	3,016,086	2,776,645
Noncurrent Assets:		
Property and Equipment (Note 3): Television and Other Equipment, Net of Accumulated Depreciation of \$5,937,142 in 2012 and \$5,974,853 in 2011	1,847,118	2,547,980
Total Assets	\$ 4,863,204	\$ 5,324,625
<u>Liabilities</u>		
Current Liabilities:		
Accounts Payable and Accrued Expenses	\$ 83,337	\$ 71,311
Funding for Programming Not Yet Broadcast	21,705	17,136
Long-Term Liabilities - Current Portion	250,000	250,000
Total Current Liabilities	355,042	338,447
Noncurrent Liabilities:		
Long-Term Liabilities (Note 5)	62,825	199,276
Total Liabilities	417,867	537,723
<u>Net Assets</u>		
Invested in Capital Assets	1,847,118	2,547,980
Restricted for Expendable Station Activities:		
Educational Programs	178,072	68,422
Restricted Endowment for Jazz Program Activities	26,492	24,187
Unrestricted	2,393,655	2,146,313
Total Net Assets	4,445,337	4,786,902
Total Liabilities and Net Assets	\$ 4,863,204	\$ 5,324,625

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

WTIU-TV
A PUBLIC TELECOMMUNICATIONS ENTITY OWNED AND OPERATED BY INDIANA UNIVERSITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Years Ended June 30, 2012 and 2011

	2012	2011
<u>Operating Revenues</u>		
CPB Community Service Grant	\$ 997,456	\$ 995,263
Facility Sales and Services	945,649	853,831
Other Income From CPB and PBS	43,549	39,462
Miscellaneous Grants	216,806	24,650
Event Income	-	1,912
Royalty Income	7,753	4,995
Total Operating Revenues	2,211,213	1,920,113
<u>Operating Expenses</u>		
Program Services:		
Programming and Production	4,472,710	4,045,145
Broadcasting	876,945	1,052,353
Public Information and Promotion	174,818	249,868
Total Program Expenses	5,524,473	5,347,366
Supporting Services:		
Management and General	429,369	469,279
Fundraising, Membership Development, and Underwriting Solicitation	477,056	472,926
Total Supporting Expenses	906,425	942,205
Total Operating Expenses	6,430,898	6,289,571
Operating Loss	(4,219,685)	(4,369,458)
<u>Nonoperating Revenues (Expenses)</u>		
General Fund Support From Indiana University	2,620,287	2,514,081
Donated Facilities and Administrative Support From Indiana University	410,688	385,892
Appropriation From State of Indiana	168,149	176,250
Individual Contributions	532,567	505,435
Corporate/Foundation Contributions	247,728	277,135
Endowment Contributions	3,152	3,645
In-Kind Support - Other	3,000	9,280
Interest and Dividends	77,846	72,409
Net Increase (Decrease) in the Fair Value of Investments	(151,635)	193,790
Gain (Loss) on Disposal of Capital Assets	(37,276)	(10,763)
Net Nonoperating Revenues (Expenses)	3,874,506	4,127,154
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	(345,179)	(242,304)
Capital grants - DOC NTIA/PTFP	3,614	238,081
Capital grant - CPB	-	81,978
Increase (Decrease) in Net Assets	(341,565)	77,755
<u>Net Assets</u>		
Net assets - Beginning of Year	4,786,902	4,709,147
Net Assets - End of Year	\$ 4,445,337	\$ 4,786,902

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

WTIU-TV
A PUBLIC TELECOMMUNICATIONS ENTITY OWNED AND OPERATED BY INDIANA UNIVERSITY
STATEMENT OF CASH FLOWS
For the Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash Flows From Operating Activities:		
Grants	\$ 1,257,811	\$ 1,059,376
Sales and Services	920,283	854,757
Payments to Employees	(3,179,162)	(3,094,785)
Payments to Vendors	(2,272,902)	(2,046,152)
Other Receipts	<u>7,753</u>	<u>7,853</u>
Net Cash Used by Operating Activities	<u>(3,266,217)</u>	<u>(3,218,951)</u>
Cash Flows From Noncapital Financing Activities:		
General Fund Support From Indiana University	2,620,287	2,514,081
Appropriation From State of Indiana	168,149	176,250
Contributions	<u>783,943</u>	<u>771,859</u>
Net Cash Provided by Noncapital Financing Activities	<u>3,572,379</u>	<u>3,462,190</u>
Cash Flows From Capital and Related Financing Activities:		
Capital Grant	3,614	320,059
Proceeds From Sale of Capital Assets	-	3,613
Purchase of Capital Assets	<u>(10,021)</u>	<u>(534,883)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(6,407)</u>	<u>(211,211)</u>
Cash Flows From Investing Activities:		
Proceeds From Sales of Investments	6,942	5,524
Purchase of Investments	(148,785)	(243,638)
Interest and Dividends on Investments	<u>76,862</u>	<u>72,212</u>
Net Cash Used by Investing Activities	<u>(64,981)</u>	<u>(165,902)</u>
Net Increase (Decrease) in Cash	234,774	(133,874)
Cash and Cash Equivalents - Beginning of Year	<u>1,095,525</u>	<u>1,229,399</u>
Cash and Cash Equivalents - End of Year	<u>\$ 1,330,299</u>	<u>\$ 1,095,525</u>
Reconciliation of Operating Loss to Net Cash Used by Operating Activities:		
Operating Loss	\$ (4,219,685)	\$ (4,369,458)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation	673,607	730,772
Donated Facilities and Administrative Support From Indiana University	410,687	385,892
In-Kind Support - State of Indiana/Other	3,000	9,280
(Increase) Decrease in Assets:		
Other Receivables, Net of Allowance for Doubtful Accounts	(25,366)	188
Costs Incurred for Programming Not Yet Broadcast	7,022	7,817
Prepaid and Other	8,942	(5,894)
Increase (Decrease) in Liabilities:		
Accounts Payable and Accrued Expenses	12,027	(34,716)
Long-Term Liabilities - Current Portion	-	26,000
Long-Term Liabilities	<u>(136,451)</u>	<u>31,168</u>
Net Cash Used by Operating Activities	<u>\$ (3,266,217)</u>	<u>\$ (3,218,951)</u>

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

WTIU-TV
A PUBLIC TELECOMMUNICATIONS ENTITY OWNED AND OPERATED BY INDIANA UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and June 30, 2011

1. Summary of Significant Accounting Policies

A. Organization

WTIU-TV (the Station) is owned by the Trustees of Indiana University, Bloomington, Indiana. The Station is operated by the Radio and Television Services Department of Indiana University.

Portions of both contribution and membership income and expenditures are deposited with and disbursed by the Indiana University Foundation.

B. Basis of Accounting

The accompanying financial statements have been prepared by the Station as a special-purpose government entity engaged in business type activities. Business type activities are those that are financed in whole or in part by fees charged to external parties for goods and services. Accordingly, these financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when an obligation has been incurred. Eliminations have been made to minimize the "double-counting" of internal activities. Interfund receivables and payables have been eliminated in the Statement of Net Assets. Eliminations have been made in the Statement of Revenues, Expenses, and Changes in Net Assets to remove the "doubling-up" effect of internal service fund activity.

C. Operating Revenues

Operating revenues consist of the community service grant from the Corporation for Public Broadcasting, production sales and services, royalties, auction revenues, special event revenues, and miscellaneous grants for operating activities.

D. Revenue Recognition - Unrestricted

Unrestricted contributions, pledges and grants are recorded as revenue in the Statement of Revenues, Expenses, and Changes in Net Assets when received. Contributions for underwriting are recorded as revenue in the Statement of Revenues, Expenses, and Changes in Net Assets when the underwriting credits have aired.

E. Revenue Recognition - Restricted

Operating funds restricted by the donor, grantor, or other outside party for particular operating purposes are deemed to be earned and reported as revenues when the Station has incurred expenditures in compliance with the specific restrictions. Such amounts received but not yet earned are reported as restricted deferred amounts.

F. Production Programming (Completed Contract Method or Purchased Programming)

Costs incurred for programs not yet broadcast relate to programs produced by the Station that will be initially broadcast subsequent to the fiscal year-end. This classification includes costs of program and film rights and licenses acquired prior to the fiscal year-end, and initially utilized subsequent to the fiscal year-end. Unearned restricted contributions and grants that support these acquisitions are

WTIU-TV
A PUBLIC TELECOMMUNICATIONS ENTITY OWNED AND OPERATED BY INDIANA UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and June 30, 2011
(Continued)

deferred in the accompanying balance sheet. Concurrent with initial broadcasting of the programs, their costs will be reported as incurred operating expenses and related financing will be reported as earned revenues in the Statement of Revenues, Expenses, and Changes in Net Assets.

G. Statement of Cash Flows

Cash flows are presented using the direct method. Cash equivalents include demand deposits and bank certificates of original maturities of thirty days or less.

H. Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Revenues, Expenses, and Changes in Net Assets. Accordingly, certain costs have been allocated among program and supporting services benefited based on total personnel costs or other systematic bases.

I. Income Taxes

The Station is exempt from federal income tax, except on activities unrelated to its exempt purpose, under Internal Revenue Code Section 501(c)(3). There was no required provision for income taxes for fiscal year 2012.

J. Enterprise Fund Election

The Station, reporting as an enterprise fund using proprietary fund accounting, had the option of electing to apply all FASB Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements. The Station did not elect to do this.

K. Investment Valuation

Investments are presented in the financial statements at fair market value as of June 30, 2012.

L. Use of Restricted Resources

When an expense is incurred for purposes for which both restricted and unrestricted resources are available, the Station first applies the restricted resources. Once the restricted resources are depleted, the Station then applies its unrestricted resources.

M. Capital Assets

The capitalization threshold for capital assets is \$5,000. Capital assets are recorded at cost. Depreciation is provided over the estimated useful lives of the respective assets (excluding assets funded by the Federal Government) using the straight-line method calculated on a monthly basis. The estimated lives of such assets range between three and twenty-five years.

N. Restricted Assets

The FY 2012 financial statements report \$204,564 of restricted net assets for FY 2012, of which \$18,299 is restricted by enabling legislation. For FY 2011, of the \$92,609 restricted net assets, \$28,587 was restricted by enabling legislation.

WTIU-TV
A PUBLIC TELECOMMUNICATIONS ENTITY OWNED AND OPERATED BY INDIANA UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and June 30, 2011
(Continued)

2. Deposits and Investments

A. Deposits

WTIU-TV maintains no directly held bank accounts. Rather, the Station's funds are held and managed by Indiana University and the Indiana University Foundation. Each institution has an Investment Policy Statement. The investment policies of these institutions ultimately determine the credit risk for the Station.

The station's "demand deposits" with each institution were as follows:

	<u>FY 2012</u>	<u>FY 2011</u>
Indiana University	\$ 1,233,956	\$ 1,028,373
Indiana University Foundation	<u>96,343</u>	<u>67,152</u>
 Total Cash and Cash Equivalents	 <u>\$ 1,330,299</u>	 <u>\$ 1,095,525</u>

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Station will not be able to recover its funds. The Station does not have a formal deposit policy for custodial credit risk.

B. Investments

The pooled investments are currently managed 100% for the university by the Indiana University Foundation. The funds are invested in accordance with the investment policy approved by the Indiana University Board of Trustees. The value of the pooled shares is determined each quarter on the basis of the total fair value of pooled investments and the number of pooled shares outstanding. Income from pooled funds is distributed pro rata to each participating fund according to the number of pooled shares it holds. At June 30, 2012, pooled shares were invested in pooled long-term and pooled short-term funds. Investment pooled funds at cost were \$1,760,064 and had a fair market value of \$1,631,968 at June 30, 2012. Pooled investments at June 30, 2011, had a cost basis of \$1,614,154 and a fair market value of \$1,637,545.

Statutory Authorization for Investments

The Indiana University Board of Trustees have acknowledged responsibility as a fiduciary body for the invested assets of the university. Indiana Code 30-4-3-3 requires the trustees to "exercise the judgment and care required by Indiana Code 30-4-3-3.5," the Indiana Uniform Prudent Investor Act. That Act requires the trustees to act "as a prudent investor would, by considering the purposes, terms, distribution requirement, and other circumstances of the trust. In satisfying this standard, the trustee shall exercise reasonable care, skill, and caution." The trustees have the responsibility to assure the assets are prudently invested in a manner consistent with the university's investment policy. The trustees have delegated the day-to-day responsibilities of overseeing the investment program to the Office of the Treasurer.

WTIU-TV
A PUBLIC TELECOMMUNICATIONS ENTITY OWNED AND OPERATED BY INDIANA UNIVERSITY
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June 30, 2012 and June 30, 2011
(Continued)

Investment Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Station will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. WTIU-TV does not have a formal investment policy for custodial credit risk for investments. The Station relies on the Indiana University and the Indiana University Foundation investment policies.

The Station's pooled investments held by the Indiana University Foundation at June 30, 2012, had a cost basis of \$1,760,064 and a fair market value of \$1,631,968. Pooled investments at June 30, 2011, had a cost basis of \$1,614,154 and a fair market value of \$1,637,545.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. WTIU-TV does not have a formal investment policy for interest rate risk for investments. The Station relies on the Indiana University and the Indiana University Foundation investment policies.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. WTIU-TV does not have a formal investment policy for credit risk for investments. The Station relies on the Indiana University and the Indiana University Foundation investment policies.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. WTIU-TV does not have a policy in regards to concentration of credit risk. The Station relies on the Indiana University and the Indiana University Foundation investment policies.

Foreign Currency Risk

WTIU-TV does not have a formal policy in regards to foreign currency risk. The Station relies on the Indiana University and the Indiana University Foundation investment policies.

3. Property and Equipment

Donated assets from the university are recorded by the Station at the acquisition price of the university. The depreciation expenses by the university are recorded on the Station's records as accumulated depreciation. There were no donated assets during fiscal year 2012.

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June 30, 2012 and June 30, 2011
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Fiscal Year 2012	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Transmission, Antenna, and Tower	\$3,786,281	\$ -	\$ 511,468	\$3,274,813
Studio and Other Broadcast Equipment	4,615,736	10,621	178,814	4,447,543
Furniture and Fixtures	<u>120,816</u>	<u>-</u>	<u>58,912</u>	<u>61,904</u>
Total	<u>8,522,833</u>	<u>10,621</u>	<u>749,194</u>	<u>7,784,260</u>
Less Accumulated Depreciation:				
Transmission, Antenna, and Tower	3,167,550	232,095	496,403	2,903,242
Studio and Other Broadcast Equipment	2,686,487	441,512	156,003	2,971,996
Furniture and Fixtures	<u>120,816</u>	<u>-</u>	<u>58,912</u>	<u>61,904</u>
Total Accumulated Depreciation	<u>5,974,853</u>	<u>673,607</u>	<u>711,318</u>	<u>5,937,142</u>
Capital Assets, Net	<u>\$2,547,980</u>	<u>\$(662,986)</u>	<u>\$ 37,876</u>	<u>\$1,847,118</u>
Fiscal Year 2011	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Transmission, Antenna, and Tower	\$3,920,803	\$(134,522)	\$ -	\$3,786,281
Studio and Other Broadcast Equipment	3,998,968	669,425	52,657	4,615,736
Furniture and Fixtures	<u>120,816</u>	<u>-</u>	<u>-</u>	<u>120,816</u>
Total	<u>8,040,587</u>	<u>534,903</u>	<u>52,657</u>	<u>8,522,833</u>
Less Accumulated Depreciation:				
Transmission, Antenna, and Tower	2,878,110	289,440	-	3,167,550
Studio and Other Broadcast Equipment	2,283,416	441,332	38,261	2,686,487
Furniture and Fixtures	<u>120,816</u>	<u>-</u>	<u>-</u>	<u>120,816</u>
Total Accumulated Depreciation	<u>5,282,342</u>	<u>730,772</u>	<u>38,261</u>	<u>5,974,853</u>
Capital Assets, Net	<u>\$2,758,245</u>	<u>\$(195,869)</u>	<u>\$ 14,396</u>	<u>\$2,547,980</u>

Depreciation expense for the years ended June 30, 2012, and June 30, 2011, was \$673,607 and \$730,772, respectively and was charged to the major functional areas as follows:

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	2012	2011
Programming and Production	\$ 441,512	\$ 441,332
Broadcasting	232,095	289,440
Public Information and Promotion	-	-
Management and General	-	-
Fundraising, Membership Development, and Underwriting	-	-
 Total Depreciation Expense	 \$ 673,607	 \$ 730,772

For capital assets partially financed with U.S. Department of Commerce NTIA/PTFP grants, the Federal Government requires a ten year lien establishing it as the priority secured creditor. This is to enforce its reversionary interest in the fixed asset for a ten year period (dating from the PTFP's approval of the final inventory for the grant); in case the Station defaults on the terms and conditions of the grant. The capital assets against which the Federal Government has a lien are:

Capital Assets	DOC Grant No.	Original Cost	Lien Through
Digital TV Studio Production Equipment	18-02-N03030	\$ 369,074	2014
High Definition Studio Camera Systems	18-02-N06114	467,278	2018
High Definition Conversion - Production	18-02-N07152	695,700	2019

4. In-Kind Support

In-kind support is divided between administrative support supplied by Indiana University and other in-kind contributions from sources outside the university.

Administrative support from Indiana University consists of institutional support, donated facilities, and physical plant operations. These are included as revenue and expense in the Statement of Revenues, Expenses, and Changes in Net Assets.

Institutional support is estimated at \$172,744 for FY 2012 and \$153,673 for FY 2011, and is computed using operating expenses as the base.

The value of donated facilities is calculated on the Annual Value Computations for Buildings and Tower Facilities form provided by the Corporation for Public Broadcasting and totals \$200,734 for the renovated Radio and TV Building and \$16,314 for the new roof and satellite dish mount on the Radio and TV Building. No value is claimed for the Transmitter Building because its remaining useful life is zero. For FY 2011, the building renovation was \$202,411 and the roof renovation was \$16,450.

Physical plant is estimated at \$20,896 for FY 2012 and was \$13,358 for FY 2011. This represents the Station's pro rata share of allowable physical plant costs not allocated by the university based on gross square feet. The physical plant costs allocated to the Station by the university are included in the general fund support from the university.

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5. Long-Term Liabilities

Long-term liability activity for the years ended June 30, 2012, and June 30, 2011, was as follows:

Fiscal Year 2012	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>	<u>Non-current Portion</u>
Compensated absences	<u>\$ 449,276</u>	<u>\$ 136,962</u>	<u>\$ 273,413</u>	<u>\$ 312,825</u>	<u>\$ 250,000</u>	<u>\$ 62,825</u>
Fiscal Year 2011	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>	<u>Non-current Portion</u>
Compensated absences	<u>\$ 392,109</u>	<u>\$ 241,433</u>	<u>\$ 184,266</u>	<u>\$ 449,276</u>	<u>\$ 250,000</u>	<u>\$ 199,276</u>

6. Pension Plan

The Station's appointed employees are covered by the same retirement plans as other employees of Indiana University. The required contributions are pooled at the university level and charged to the Station at a predetermined rate. Non-exempt employees are covered by PERF (Public Employee's Retirement Fund), which is a defined benefit plan. Total PERF pension expenses for the years ended June 30, 2012, and June 30, 2011, were \$48,118 and \$46,939, respectively. Exempt employees are covered by the IU Retirement Plan. This is a defined contribution plan with three funding levels. In addition, the university provides early retirement benefits to certain appointed academic and professional staff. These employees are covered by the IUSERP (IU Supplemental Early Retirement Program) or the 18/20 Retirement Plan. The IU Retirement Plan, IUSERP, and the 18/20 Retirement Plan pension expenses for the years ended June 30, 2012, and June 30, 2011, were \$197,345 and \$218,728, respectively. Complete details of these plans can be found in the Indiana University Annual Financial Report.

7. Accounts Payable and Accrued Expenses

The Station's accounts payable and accrued expenses at June 30, 2012, and June 30, 2011, were primarily accrued payroll.

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EXIT CONFERENCE

The contents of this report were discussed on January, 14, 2013, with Perry Metz, Director of Radio and TV Services, and Donna J. Stroup, Chief Financial Officer Radio and TV Services. Our audit disclosed no material items that warrant comment at this time.