

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

AUDIT REPORT
OF

WFIU-FM, 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

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of WFIU-FM (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 WFIU-FM, 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

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

WFIU-FM (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

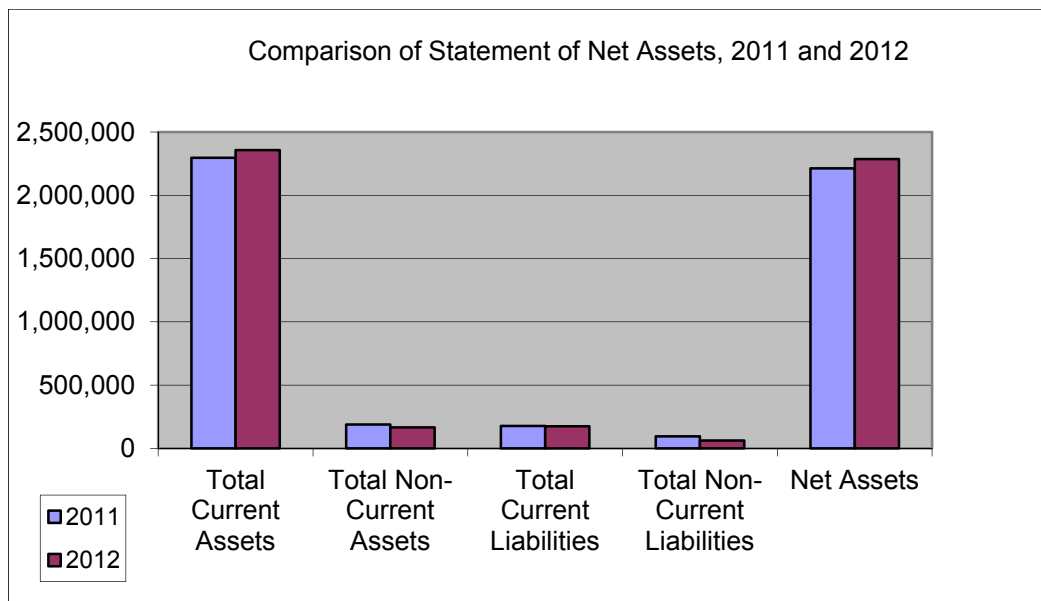
Total assets at June 30, 2012, were \$2,523,289, an increase of \$38,135. Capital net assets comprised \$166,324 of the total.

Total liabilities were \$237,098 at June 30, 2012, a decrease of \$35,504. Non-current liabilities were 26% or \$62,331 of the liabilities at June 30, 2012. The Station had no outstanding debt obligations.

Total net assets at June 30, 2012, were \$2,286,191, an increase of \$73,639 from the prior year, or a 3% increase in net assets. The breakout of net assets is shown below:

| | |
|-------------------------|--------------------|
| Capital assets | \$ 166,324 |
| Restricted net assets | 98,898 |
| Unrestricted net assets | <u>2,020,969</u> |
| Total net assets | <u>\$2,286,191</u> |

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



WFIU-FM
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 WFIU-FM for the June 30, 2012, fiscal year increased by 37.7% from the previous year. Operating revenue changes were the result of the following factors:

- The majority of funding for a new NPR grant project was reflected in fiscal year 2012.
- A new CPB archive project began and concluded during fiscal year 2012.

Total non-operating revenues were down 15%, from \$2,535,177 in fiscal year 2011 to \$2,154,610 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 decreased by almost \$149,000, primarily due to the early retirement of the station manager, a position the station did not fill. The manager's duties were primarily absorbed by another staff member.
- Indiana University donated administrative support showed little change from the prior year. The administrative support is based on the Station's prorated share of the Indiana University-Bloomington campus Institutional Support costs.

For contributions:

- Individual contributions and endowment contributions were \$582,899, an increase of 3.5% over the prior year.
- Corporate and foundation contributions were \$379,605, a decrease of 3.6% from the prior year.
- The Station received an additional \$3,153 endowment gift for the Al Cobine Endowment fund for jazz programming, and an additional \$2,300 endowment gift for the Classical Music Endowment Fund for classical music programming.
- In-kind support was \$34,710, an increase of 57% from the prior year.

For other non-operating income:

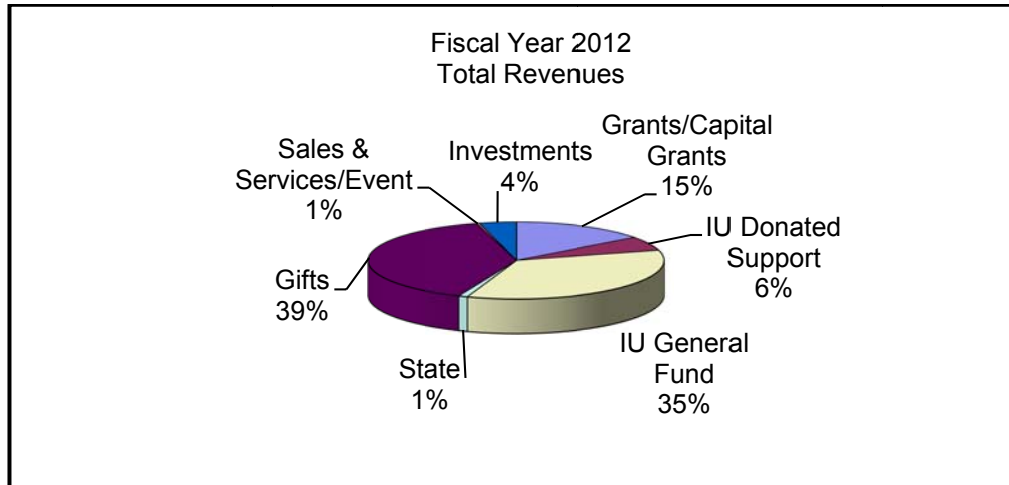
- Interest and dividends earned by the Indiana University Foundation Pooled funds increased 7.4%.

For capital:

- The Station received \$35,385 in funding for the CPB capital grant awarded in fiscal year 2011.

In summary, total revenues of the Station decreased by \$249,822, from \$2,788,010 in 2011 to \$2,538,188 in 2012, an overall decrease of 9%. The compositions of these revenues are displayed in this graph:

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



Expenses

Operating expenses were \$2,265,766 for the 2012 fiscal year. This was a decrease over the previous fiscal year of \$134,882, or 5.6%. 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 \$31,162.

For specific functional areas:

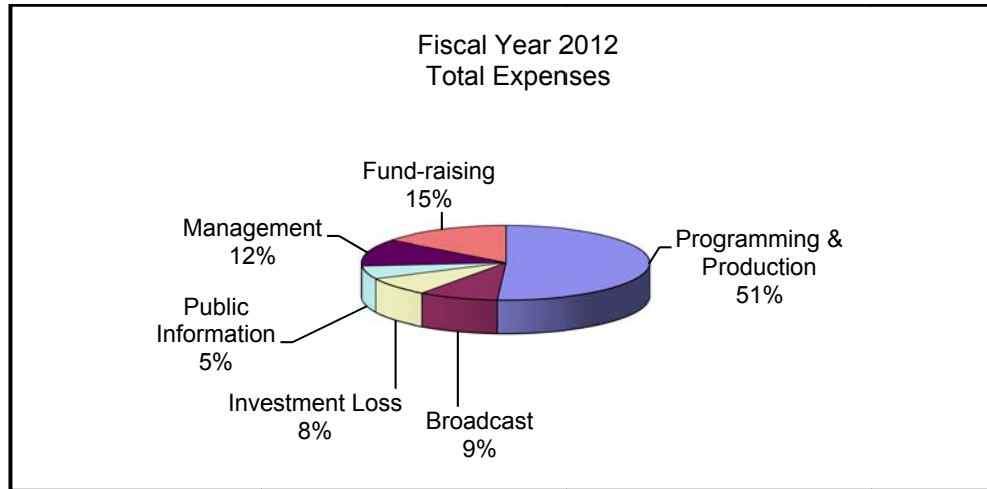
- Programming and production costs decreased \$100,573 because of continuing effort to reduce outside program purchases and the elimination of the station manager position that required a shift of effort from programming to management expenses.
- Broadcasting costs decreased \$18,319.
- Public information and promotion expenses remained steady.
- Management and general expenses increased \$59,655, primarily due to the payout of the accrued benefits and the early retirement incentive for the retired station manager.
- Fund-raising, membership development, and underwriting solicitation costs decreased \$74,867.

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 \$198,783.

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

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



Net Assets

Net assets increased by \$73,639 in 2012, compared to a \$387,362 increase in net assets in 2011. The operating loss decreased by \$230,242 from the previous fiscal year and the net non-operating revenues decreased by \$579,350. Ending net assets were \$2,286,191, compared to ending net assets in 2011 of \$2,212,552. This was a 3% increase in net assets.

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 obligations as they come due, and to determine the need for external financing.

| <u>Cash Flows for the Period</u> | <u>June 30, 2012</u> | <u>June 30, 2011</u> |
|---|----------------------|----------------------|
| Net cash provided (used) by: | | |
| Operating activities | (\$1,794,767) | (\$1,952,006) |
| Noncapital financing activities | 1,848,970 | 1,988,833 |
| Capital and related financing activities | 28,740 | (98,267) |
| Investing activities | (45,008) | (73,744) |
| Net increase (decrease) in cash | 37,935 | (135,184) |
| Beginning cash and cash equivalent balances | 61,245 | 196,429 |
| Ending cash and cash equivalent balances | <u>\$ 99,180</u> | <u>\$ 61,245</u> |

Cash used by operating activities decreased by \$157,239. This decrease in the use of cash was the result of decreases in operating expenses.

Noncapital financing activities decreased \$139,863, primarily due to less general fund support from Indiana University.

Cash provided by capital and related financing activities was \$28,740. Equipment purchased for less than \$5,000 the capitalization threshold, was recorded as operating expenses.

Cash used by investing activities decreased by \$28,736.

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

In summary, there was a net increase in cash and cash equivalents in 2012 of \$37,935.

Capital Assets

At June 30, 2012, the Station had \$166,324 invested in capital assets, net of accumulated depreciation. Depreciation charges for the years ending June 30, 2012, and June 30, 2011, totaled \$29,107 and \$21,620, respectively. Details of these assets are shown below:

| <u>Net Capital Assets at Year-End</u> | <u>June 30, 2012</u> | <u>June 30, 2011</u> |
|---------------------------------------|----------------------|----------------------|
| Transmission, Antenna, and Tower | <u>\$166,324</u> | <u>\$188,786</u> |

The only capital purchase for the year was the upgrade for the radio embedder exporter equipment of \$6,645.

No capital expenditures are planned for fiscal year 2013. With the installation and fine tuning of the new transmitter in 2011, station equipment is up to date. Software updates and equipment refreshes will continue, but these are expected to be below the capital threshold.

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 corporate underwriting has grown strongly, with a more modest assist from grant funding. NPR, PRI, APM dues have increased roughly in line with inflation, though new costs are expected for online services, even those we do not use. The station has just hired a new operations director so there may be some changes in programming and organization; financial fundamentals are strong.

WFIU-FM
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 | \$ 99,180 | \$ 61,245 |
| Other Receivables, Net of Allowance for Doubtful Accounts of \$0 in 2012 and \$0 in 2011 | 143,061 | 51,768 |
| Costs Incurred for Programming Not Yet Broadcast | 1,020 | 18,539 |
| Prepaid and Other | 8,482 | 10,291 |
| Investments (Note 2) | 2,105,222 | 2,154,525 |
| Total Current Assets | 2,356,965 | 2,296,368 |
| Noncurrent Assets: | | |
| Property and Equipment (Note 3): Radio and Other Equipment, Net of Accumulated Depreciation \$361,385 in 2012 and \$353,109 in 2011 | 166,324 | 188,786 |
| Total Assets | \$ 2,523,289 | \$ 2,485,154 |
| <u>Liabilities</u> | | |
| Current Liabilities: | | |
| Accounts Payable and Accrued Expenses | \$ 33,430 | \$ 46,790 |
| Funding for Programming Not Yet Broadcast | 51,337 | 40,961 |
| Long-Term Liabilities - Current Portion | 90,000 | 90,000 |
| Total Current Liabilities | 174,767 | 177,751 |
| Noncurrent Liabilities: | | |
| Long-Term Liabilities (Note 5) | 62,331 | 94,851 |
| Total Liabilities | 237,098 | 272,602 |
| <u>Net Assets</u> | | |
| Invested in Capital Assets | 166,324 | 188,786 |
| Restricted for Expendable Station Activities: | | |
| Educational Programs | 47,986 | 542 |
| Restricted Endowment for Jazz Program Activities | 26,368 | 24,063 |
| Restricted Endowment for Classical Music Initiatives | 24,544 | 23,224 |
| Unrestricted | 2,020,969 | 1,975,937 |
| Total Net Assets | 2,286,191 | 2,212,552 |
| Total Liabilities and Net Assets | \$ 2,523,289 | \$ 2,485,154 |

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

WFIU-FM
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

| | <u>2012</u> | <u>2011</u> |
|---|---------------------|---------------------|
| <u>Operating Revenues</u> | | |
| CPB Community Service Grant | \$ 201,871 | \$ 203,948 |
| Facility Sales and Services | 3,173 | 9,722 |
| Other Income From CPB and NPR | 124,341 | 28,519 |
| Miscellaneous Grants and Revenues | 13,836 | 5,007 |
| Royalty Income | <u>4,972</u> | <u>5,637</u> |
| Total Operating Revenues | <u>348,193</u> | <u>252,833</u> |
| <u>Operating Expenses</u> | | |
| Program Services: | | |
| Programming and Production | 1,255,745 | 1,356,318 |
| Broadcasting | 218,700 | 237,019 |
| Public Information and Promotion | <u>138,724</u> | <u>139,502</u> |
| Total Program Expenses | <u>1,613,169</u> | <u>1,732,839</u> |
| Supporting Services: | | |
| Management and General | 291,602 | 231,947 |
| Fundraising, Membership Development, and Underwriting Solicitation | <u>360,995</u> | <u>435,862</u> |
| Total Supporting Expenses | <u>652,597</u> | <u>667,809</u> |
| Total Operating Expenses | <u>2,265,766</u> | <u>2,400,648</u> |
| Operating Loss | <u>(1,917,573)</u> | <u>(2,147,815)</u> |
| <u>Nonoperating Revenues (Expenses)</u> | | |
| General Fund Support From Indiana University | 876,957 | 1,025,700 |
| Donated Facilities and Administrative Support From Indiana University | 152,687 | 149,619 |
| Appropriation From State of Indiana | 25,255 | 23,073 |
| Individual Contributions | 577,446 | 555,655 |
| Corporate/Foundation Contributions | 379,605 | 393,845 |
| Endowment Contributions | 5,453 | 7,720 |
| In-Kind Support - Other | 34,710 | 22,113 |
| Interest and Dividends | 102,497 | 95,442 |
| Net Increase (Decrease) in the Fair Value of Investments | (198,783) | 256,672 |
| Gain on Sale of Investments | <u>-</u> | <u>5,338</u> |
| Net Nonoperating Revenues | <u>1,955,827</u> | <u>2,535,177</u> |
| Income Before Other Revenues, Expenses, Gains, or Losses | <u>38,254</u> | <u>387,362</u> |
| Capital grant | <u>35,385</u> | <u>-</u> |
| Increase in Net Assets | <u>73,639</u> | <u>387,362</u> |
| <u>Net Assets</u> | | |
| Net Assets - Beginning of Year | <u>2,212,552</u> | <u>1,825,190</u> |
| Net Assets - End of Year | <u>\$ 2,286,191</u> | <u>\$ 2,212,552</u> |

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

WFIU-FM
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 | \$ 272,903 | \$ 233,399 |
| Sales and Services | 3,173 | 9,635 |
| Payments to Employees | (1,549,315) | (1,541,683) |
| Payments to Vendors | (526,499) | (663,156) |
| Other Receipts | <u>4,971</u> | <u>9,799</u> |
| Net Cash Used by Operating Activities | <u>(1,794,767)</u> | <u>(1,952,006)</u> |
| Cash Flows From Noncapital Financing Activities: | | |
| General Fund Support From Indiana University | 876,957 | 1,025,701 |
| Appropriation From State of Indiana | 25,256 | 23,073 |
| Contributions | <u>946,757</u> | <u>940,059</u> |
| Net Cash Provided by Noncapital Financing Activities | <u>1,848,970</u> | <u>1,988,833</u> |
| Cash Flows From Capital and Related Financing Activities: | | |
| Capital Grants | 35,385 | - |
| Purchase of Capital Assets | <u>(6,645)</u> | <u>(98,267)</u> |
| Net Cash Provided by Capital and Related Financing Activities | <u>28,740</u> | <u>(98,267)</u> |
| Cash Flows From Investing Activities: | | |
| Proceeds From Sales of Investments | 319 | 3,252 |
| Purchase of Investments | (146,753) | (172,716) |
| Interest and Dividends on Investments | <u>101,426</u> | <u>95,720</u> |
| Net Cash Used by Investing Activities | <u>(45,008)</u> | <u>(73,744)</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | 37,935 | (135,184) |
| Cash and Cash Equivalents - Beginning of Year | <u>61,245</u> | <u>196,429</u> |
| Cash and Cash Equivalents - End of Year | <u>\$ 99,180</u> | <u>\$ 61,245</u> |
| Reconciliation of Operating Loss to Net Cash Used by Operating Activities: | | |
| Operating Loss | \$ (1,917,573) | \$ (2,147,815) |
| Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities: | | |
| Depreciation | 29,107 | 21,620 |
| Donated Facilities and Administrative Support From Indiana University | 152,687 | 149,619 |
| In-Kind Support - Other | 34,710 | 22,113 |
| (Increase) Decrease in Assets | | |
| Other Receivables, Net of Allowance for Doubtful Accounts | (67,145) | - |
| Costs Incurred for Programming Not Yet Broadcast | 17,518 | (6,967) |
| Prepaid and Other | 1,809 | (70) |
| Increase (Decrease) in Liabilities | | |
| Accounts Payable and Accrued Expenses | (13,360) | 10,852 |
| Long-Term Liabilities - Current Portion | - | 1,000 |
| Long-Term Liabilities | <u>(32,520)</u> | <u>(2,358)</u> |
| Net Cash Used by Operating Activities | <u>\$ (1,794,767)</u> | <u>\$ (1,952,006)</u> |

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

WFIU-FM
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

WFIU-FM (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

WFIU-FM
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 ten years.

N. Restricted Assets

The FY 2012 financial statements report \$98,898 of restricted net assets, of which \$0 is restricted by enabling legislation. For FY 2011, of the \$47,829 restricted net assets, \$0 was restricted by enabling legislation.

WFIU-FM
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

WFIU-FM 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 | \$ 46,244 | \$ 6,019 |
| Indiana University Foundation | <u>52,936</u> | <u>55,226</u> |
| Total Cash and Cash Equivalents | <u>\$ 99,180</u> | <u>\$ 61,245</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 \$2,107,786 and had a fair market value of \$2,105,222 at June 30, 2012. Pooled investments at June 30, 2011, had a cost basis of \$2,082,813 and a fair market value of \$2,154,525.

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.

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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. WFIU-FM 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 \$2,107,786 and a fair market value of \$2,105,222. Pooled investments at June 30, 2011, had a cost basis of \$2,082,813 and a fair market value of \$2,154,525.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. WFIU-FM 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. WFIU-FM 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. WFIU-FM 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

WFIU-FM 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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| Fiscal Year 2012 | <u>Beginning Balance</u> | <u>Additions</u> | <u>Retirements</u> | <u>Ending Balance</u> |
|--------------------------------------|------------------------------|--------------------|--------------------|---------------------------|
| Transmission, Antenna, and Tower | \$ 500,288 | \$ 6,645 | \$ 6,108 | \$ 500,825 |
| Studio and Other Broadcast Equipment | 19,331 | - | - | 19,331 |
| Furniture and Fixtures | <u>22,276</u> | <u>-</u> | <u>14,723</u> | <u>7,553</u> |
| Total | <u>541,895</u> | <u>6,645</u> | <u>20,831</u> | <u>527,709</u> |
| Less Accumulated Depreciation: | | | | |
| Transmission, Antenna, and Tower | 311,502 | 29,107 | 6,108 | 334,501 |
| Studio and Other Broadcast Equipment | 19,331 | - | - | 19,331 |
| Furniture and Fixtures | <u>22,276</u> | <u>-</u> | <u>14,723</u> | <u>7,553</u> |
| Total Accumulated Depreciation | <u>353,109</u> | <u>29,107</u> | <u>20,831</u> | <u>361,385</u> |
| Capital Assets, Net | <u>\$ 188,786</u> | <u>\$ (22,462)</u> | <u>\$ -</u> | <u>\$ 166,324</u> |
| | | | | |
| Fiscal Year 2011 | <u>Beginning Balance</u> | <u>Additions</u> | <u>Retirements</u> | <u>Ending Balance</u> |
| Transmission, Antenna, and Tower | \$ 402,021 | \$ 98,267 | \$ - | \$ 500,288 |
| Studio and Other Broadcast Equipment | 19,331 | - | - | 19,331 |
| Furniture and Fixtures | <u>22,276</u> | <u>-</u> | <u>-</u> | <u>22,276</u> |
| Total | <u>443,628</u> | <u>98,267</u> | <u>-</u> | <u>541,895</u> |
| Less Accumulated Depreciation: | | | | |
| Transmission, Antenna, and Tower | 289,882 | 21,620 | - | 311,502 |
| Studio and Other Broadcast Equipment | 19,331 | - | - | 19,331 |
| Furniture and Fixtures | <u>22,276</u> | <u>-</u> | <u>-</u> | <u>22,276</u> |
| Total Accumulated Depreciation | <u>331,489</u> | <u>21,620</u> | <u>-</u> | <u>353,109</u> |
| Capital Assets, Net | <u>\$ 112,139</u> | <u>\$ 76,647</u> | <u>\$ -</u> | <u>\$ 188,786</u> |

Depreciation expense for the years ended June 30, 2012, and June 30, 2011, was \$29,107 and \$21,620, respectively, and was charged to the major functional areas as follows:

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| | 2012 | 2011 |
|---|---------------|---------------|
| Programming and Production | \$ - | \$ - |
| Broadcasting | 29,107 | 21,620 |
| Public Information and Promotion | - | - |
| Management and General | - | - |
| Fundraising, Membership Development, and Underwriting | - | - |
| Total Depreciation Expense | \$ 29,107 | \$ 21,620 |

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 Broadcast Equipment | 18-01-N04079 | \$ 51,362 | 2015 |
| FM Translator (Greensburg/French Lick) | 18-01-N06131 | 46,990 | 2018 |
| Digital Conversion: 2nd Audio Channel | 18-01-N07185 | 49,830 | 2018 |

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 \$67,342 for FY 2012 and \$68,869 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 \$72,156 for the renovated Radio and TV Building and \$5,864 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 \$70,480 and the roof renovation was \$5,727.

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Physical plant is estimated at \$7,325 for FY 2012 and was \$4,543 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.

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>\$ 184,851</u> | <u>\$ 87,665</u> | <u>\$ 120,185</u> | <u>\$ 152,331</u> | <u>\$ 90,000</u> | <u>\$ 62,331</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>\$ 186,208</u> | <u>\$ 97,849</u> | <u>\$ 99,206</u> | <u>\$ 184,851</u> | <u>\$ 90,000</u> | <u>\$ 94,851</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 \$38,376 and \$32,030, 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 \$127,701 and \$115,025, 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.