

**KWAX-FM RADIO OF
UNIVERSITY OF OREGON
AUDIT REPORT
Year Ended June 30, 2017**

TABLE OF CONTENTS

Independent Auditor's Report	1 to 2
Management's Discussion and Analysis	3 to 6
Basic Financial Statements:	
Statement of Net Position	7
Statement of Activities	8
Statement of Cash Flows	9
Notes to Financial Statements	10 to 11

Report of Independent Auditors

University of Oregon Board of Trustees
KWAX
Eugene, Oregon

Report on the Financial Statements

We have audited the accompanying financial statements of KWAX-FM Radio Station of University of Oregon (“KWAX”), a public telecommunications entity operated by the University of Oregon, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the KWAX’s basic financial statements as listed in the table of contents.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the KWAX as of June 30, 2017, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 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.

Moss Adams LLP

Portland, Oregon
February 9, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis (MD&A) provides an overview of the financial position and activities of KWAX-FM Radio (KWAX) of University of Oregon (UO) for the fiscal year ended June 30, 2017. The discussion is designed to assist the readers in understanding the accompanying financial statements through an objective and easily readable analysis of KWAX's financial activities.

Overview of the Basic Financial Statements

The MD&A serves as an introduction to KWAX's basic entity-wide financial statements. The entity-wide presentation is designed to provide readers with a broad overview of KWAX's finances, in a manner similar to a private sector business. These financial statements focus on KWAX's overall financial condition, its results of operations and its cash flows. Because this presentation includes summarized formats, it should be read in conjunction with the financial statements, which are comprised of the following:

The Report of Independent Auditors presents an unmodified opinion rendered by an independent certified public accounting firm, Moss Adams LLP, on the fairness in presentation (in all material respects) of the financial statements.

Statement of Net Position (SNP) presents KWAX's assets and liabilities with the difference between the two reported as net position. Over time, increases or decreases in net position are indicators of the improvement or erosion of KWAX's financial condition. Assets and liabilities are generally measured using current values; capital assets are stated at historical cost, less an allowance for depreciation.

Statement of Activities (SA) presents the revenues earned and the expenses incurred during the year. Revenues and expenses are generally reported using the accrual method of accounting, which records transactions as soon as they occur, regardless of when cash is exchanged. Usage of capital assets is reported as depreciation expense, which amortizes the cost of the assets over their estimated useful lives. Revenues and expenses are reported as either operating or nonoperating. The primary source of operating revenue is underwriting. Contributions and UO support are classified as nonoperating revenues.

Statement of Cash Flows (SCF) presents information on cash flows from operating activities, non-capital financing activities, capital and related financing activities and investing activities. It provides the net increase or decrease in cash between the beginning and end of the fiscal year. This statement assists in evaluating financial viability and KWAX's ability to meet financial obligations as they become due.

Notes to the Financial Statements (Notes) provide additional information that is essential to a full understanding of the data provided in the entity-wide financial statements.

Analysis of the Statement of Net Position

	<u>June 30,</u>	
	<u>2017</u>	<u>2016</u>
ASSETS		
Cash On Hand	\$ 6,352	\$ 15,329
Prepaid Subscriptions & Memberships	4,104	-
Interest in Quasi-Endowment	5,687	64,030
Capital Assets, Net of Accumulated Depreciation	20,672	25,325
Total Assets	36,815	104,684
LIABILITIES		
Invoices Payable	9,657	15,288
Total Liabilities	9,657	15,288
NET POSITION		
Invested in Capital Assets	20,672	25,325
Unrestricted	6,486	64,071
Total Net Position	27,158	89,396
Total Liabilities and Net Position	\$ 36,815	\$ 104,684

At June 30, 2017, KWAX's current assets of \$10,456 were sufficient to cover current liabilities of \$9,657. This represents a current ratio of 1.08. Current assets consist of cash and cash equivalents and prepaid subscriptions and memberships. Included in noncurrent assets are capital assets (equipment) net of accumulated depreciation used to provide services, and an interest in a quasi-endowment held at the University of Oregon Foundation. Current liabilities consist of invoices payable.

Cash on hand decreased from \$15,329 in fiscal year 2016 to \$6,352 in fiscal year 2017, a decrease of \$8,977, or 59 percent. Interest in the quasi-endowment decreased from \$64,030 in fiscal year 2016 to \$5,687 in 2017, a drop of \$58,343, or 91 percent. Capital assets, net of accumulated depreciation, decreased by \$4,653 from fiscal year 2016 to fiscal year 2017, an 18 percent decrease, due to the disposal of some assets and depreciation. Invoices payable decreased from \$15,288 in fiscal year 2016 to \$9,657 in fiscal year 2017, a decrease of \$5,631, or 37 percent. Within net position, the "invested in capital assets" amount of \$20,672 represents the total original cost of all of KWAX's equipment less total accumulated depreciation on these assets. This amount was \$25,325 in fiscal year 2016, a decrease of \$4,653, or 18 percent between years. Unrestricted net position decreased from \$64,071 in fiscal year 2016 to \$6,486 in fiscal year 2017, a decrease of \$57,585, or 90 percent.

Analysis of the Statement of Activities

The Statement of Activities presents the operating results of KWAX as well as the nonoperating revenues and expenses.

	June 30,	
	2017	2016
Operating Revenues	\$ 3,200	\$ -
Operating Expenses	533,037	505,276
Operating Loss	(529,837)	(505,276)
Nonoperating Revenues	467,599	373,079
Change in Net Position	(62,238)	(132,197)
Net Position - Beginning of Year	89,396	221,593
Net Position - End of Year	\$ 27,158	\$ 89,396

Revenues

Total operating revenues, which are comprised of underwriting, for KWAX for fiscal year 2017 were \$3,200. KWAX had no operating revenue in fiscal year 2016. Nonoperating revenues for fiscal year 2017 totaled \$467,599, compared to \$373,079 in 2016, an increase of \$94,520, or 25 percent. The largest component of nonoperating revenue is support from the University of Oregon Foundation, which increased from \$348,915 in 2016 to \$414,613 in 2017, an increase of \$65,698, or 19 percent. State targeted funding increased 3 percent in fiscal year 2017, from \$16,778 in fiscal year 2016 to \$17,217 in fiscal year 2017. KWAX received interfund support of \$28,169 in 2017. A gain on the sale of assets provided an additional \$5,678 in fiscal year 2017. Revenues from investment activity increased slightly from \$1,916 in 2016 to \$1,922 in fiscal year 2017. In 2016, in-kind contributions provided \$5,470.

Expenses

Total expenses of KWAX were \$533,037 for the fiscal year 2017, compared to \$505,276 for 2016, an increase of \$24,561, or 5 percent. Programming and production expense decreased 25 percent, from \$76,981 in fiscal year 2016 to \$58,046 in fiscal year 2017. Broadcasting expense decreased from \$127,040 in 2016 to \$115,987 in fiscal year 2017, a decrease of \$11,053, or 9 percent. Management and general expenses totaled \$339,414 in fiscal year 2017 compared to \$276,898 in 2016, an increase of \$62,516, or 23 percent. Fundraising and membership development expense decreased in fiscal year 2017 to \$11,968, from \$14,541 in fiscal year 2016, a decrease of \$2,573, or 18 percent. Depreciation expense decreased by \$2,205, or 25 percent in fiscal year 2017, compared to fiscal year 2016.

Requests for Information

This financial report is designed to provide a general overview of KWAX. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Jamie Moffitt

Vice President for Finance and Administration
103 Johnson Hall
1283 University of Oregon
Eugene, OR 97403-1283
541-364-3003

FINANCIAL STATEMENTS

**KWAX Radio of University of Oregon
Statement of Net Position
Year Ended June 30, 2017**

	2017
ASSETS	
Cash On Hand	\$ 6,352
Prepaid Subscriptions & Memberships	4,104
Interest in Quasi-Endowment	5,687
Capital Assets, Net of Accumulated Depreciation	20,672
Total Assets	36,815
 LIABILITIES	
Invoices Payable	9,657
Total Liabilities	9,657
 NET POSITION	
Invested in Capital Assets	20,672
Unrestricted	6,486
Total Net Position	27,158
 Total Liabilities and Net Position	 \$ 36,815

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

KWAX Radio of University of Oregon
Statement of Activities
Year Ended June 30, 2017

	2017
OPERATING REVENUES	
Underwriting	\$ 3,200
Total Operating Revenues	3,200
OPERATING EXPENSES	
Program Services	
Programming & Production	58,046
Broadcasting	115,987
Total Program Services	174,033
Supporting Services:	
Management & General	339,414
Fundraising & Membership Development	11,968
Interest Expense	1,092
Total Supporting Services	352,474
Depreciation	6,530
Total Operating Expenses	533,037
Operating Loss	(529,837)
NONOPERATING REVENUES	
Foundation Support	414,613
Investment Activity	1,922
University of Oregon	
State Targeted Funding	17,217
Interfund Support	28,169
Gain on Sale of Assets, Net	5,678
Total Nonoperating Revenues	467,599
Change in Net Position	(62,238)
NET POSITION	
Beginning Balance	89,396
Ending Balance	\$ 27,158

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

KWAX Radio of University of Oregon
Statement of Cash Flows
Year Ended June 30, 2017

	2017
CASH FLOWS FROM OPERATING ACTIVITIES	
Underwriting	\$ 3,200
Payments to Employees for Compensation and Benefits	(268,062)
Payments to Suppliers	(264,086)
Interest Payments	(1,092)
Net Cash Used by Operating Activities	(530,040)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Memberships	414,611
State Targeted Funding	17,217
Interfund Support	28,169
Net Cash Provided by Noncapital Financing Activities	459,997
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Sales of Capital Assets	800
Net Cash Provided by Capital Financing Activities	800
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	59,003
Interest on Investments and Cash Balances	1,262
Net Cash Provided by Investing Activities	60,265
NET DECREASE IN CASH AND CASH EQUIVALENTS	(8,977)
CASH AND CASH EQUIVALENTS	
Beginning Balance	15,329
Ending Balance	\$ 6,352
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY	
OPERATING ACTIVITIES	
Operating Loss	\$ (529,837)
Adjustments to Reconcile Operating Loss to Net Cash Used by	
Operating Activities:	
Depreciation Expense	6,530
Purchase of Minor Equipment	3,000
Changes in Assets and Liabilities:	
Prepaid Expenses	(4,104)
Invoices Payable	(5,631)
NET CASH USED BY OPERATING ACTIVITIES	\$ (530,040)
NONCASH CAPITAL AND RELATED FINANCING TRANSACTIONS	
Capital Assets Acquired by Trade-in	\$ 7,500

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

NOTES TO FINANCIAL STATEMENTS

Notes to Financial Statements

Year Ended June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: The financial statements of KWAX-FM Radio of University of Oregon (KWAX) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the KWAX's accounting policies are described below.

A. Organization and Operation

KWAX is operated by UO (the institutional licensee). UO records the transactions of KWAX within UO's financial statements. Because KWAX's financial statements present only a selected portion of the activities of UO, they are not intended to and do not present the financial position, changes in financial position and cash flows of the university as a whole.

B. Measurement Focus and Basis of Accounting

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Operating revenues and expenses are distinguished from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the KWAX's ongoing operations. The principal operating revenue of KWAX is underwriting. Operating expenses include the cost of program services and support services, and depreciation on capital assets. Other revenues, typically from non-exchange transactions, such as support from the University of Oregon Foundation, UO interfund support, and state targeted funding, are not generated from operations and are considered nonoperating revenues.

C. Cash and Cash Equivalents

Cash balances of KWAX are pooled in bank accounts maintained by UO. For purposes of the statement of cash flows, cash and cash equivalents include KWAX's portion of UO's pooled accounts. The pooled accounts have the general characteristics of a demand deposit account.

D. Capital Assets

Capital assets consist of equipment with a useful life greater than one year. KWAX's capitalization threshold is \$5,000 for all capital assets. Donated assets are recorded at their fair market value on the date donated. The cost of normal maintenance and repairs that do not add value or functionality to the asset are not capitalized, but are expensed as incurred. Capital assets are depreciated using the straight-line method over a 5 to 11 year estimated life.

E. Restrictions

When restricted and unrestricted resources are available for use, restricted resources are used first.

F. Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. CASH:

Cash and investments are included in the UO cash and investments pool. Readers of these financial statements are referred to UO's comprehensive annual financial report at http://pages.uoregon.edu/baoforms/bao_drupal_6/sites/ba.uoregon.edu/files/fy2017UOafs.pdf for information regarding the extent in which deposits at UO are collateralized.

3. CAPITAL ASSETS:

The following is a summary of changes in KWAX's capital assets during the fiscal years:

Capital Assets	Balance June 30, 2016	Additions	Retirements and Adjustments	Balance June 30, 2017
Equipment	\$ 253,552	\$ 7,500	\$ (20,860)	\$ 240,192
Less Accumulated Depreciation	<u>(228,227)</u>	<u>(6,530)</u>	<u>15,237</u>	<u>(219,520)</u>
Total Capital Assets, Net	<u>\$ 25,325</u>	<u>\$ 970</u>	<u>\$ (5,622)</u>	<u>\$ 20,672</u>

4. OPERATING LEASES: KWAX is obligated under operating leases for tower facilities and paid \$105,820 in rent during the 2017 fiscal year. The following is a schedule of estimated future minimum rental payments:

For the year ending June 30,

2018	\$ 77,120
2019	37,859
2020	24,813
2021	19,440
2022	16,200
Total Minimum Operating Lease Payments	<u>\$ 175,433</u>