WDAV-FM RADIO

(A Public Telecommunication Entity Operated by The Trustees of Davidson College)

Financial Statements

June 30, 2012

(With Independent Auditors' Report Thereon)

KPMG LLP
Suite 400
300 North Greene Street
Greensboro, NC 27401

Independent Auditors' Report

Board of Trustees
The Trustees of Davidson College:

We have audited the accompanying statement of financial position of WDAV-FM Radio, a public telecommunication entity operated by The Trustees of Davidson College, as of June 30, 2012, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the management of WDAV-FM Radio. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from WDAV-FM Radio's June 30, 2011 financial statements and, in our report dated November 30, 2011, we expressed an unqualified opinion on those financial statements.

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 WDAV-FM Radio's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 financial position of WDAV-FM Radio as of June 30, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

December 21, 2012

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WDAV-FM RADIO
(A Public Telecommunication Entity Operated by The Trustees of Davidson College)

Statement of Financial Position

June 30, 2012
(with comparative financial information as of June 30, 2011)

Assets		**2012**	**2011**
Cash and cash equivalents	$	174,634	93,464
Contributions receivable, net (note 2)		158,188	153,137
Investments (note 3)		1,832,317	2,117,679
		2,165,139	2,364,280
Property and equipment:			
Land		10,682	10,682
Land improvements		40,000	40,000
Building		1,801,415	1,801,415
Transmission, antenna, and tower equipment		708,503	708,503
Studio and broadcast equipment		722,340	709,814
Construction in progress		27,935	68,217
		3,310,875	3,338,631
Less accumulated depreciation		(1,323,859)	(1,254,614)
Net property and equipment		1,987,016	2,084,017
Total assets	$	4,152,155	4,448,297

Liabilities and Net Assets			
Liabilities:			
Deferred revenue	$	47,687	43,770
Net assets:			
Unrestricted		3,436,094	3,723,962
Temporarily restricted (note 6)		438,395	450,586
Permanently restricted (note 6)		229,979	229,979
Total net assets		4,104,468	4,404,527
Total liabilities and net assets	$	4,152,155	4,448,297

See accompanying notes to financial statements.

WDAV-FM RADIO
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Statement of Activities

Year ended June 30, 2012
(with summarized financial information for the year ended June 30, 2011)

	Unrestricted	Temporarily restricted	Permanently restricted	2012	2011
Revenues, gains and other support:					
Contributions	$ 1,202,916	133,803	—	1,336,719	1,136,429
Donated facilities and administrative support from Davidson College	902,687	—	—	902,687	833,495
Community service grants from the Corporation for Public Broadcasting	186,832	—	—	186,832	174,693
Investment income	93,024	—	—	93,024	102,848
Other income	17,482	—	—	17,482	31,173
Realized and unrealized (losses) gains on investments	(48,537)	(17,242)	—	(65,779)	283,044
Total revenues and gains	2,354,404	116,561	—	2,470,965	2,561,682
Net assets released from restrictions	128,752	(128,752)	—	—	—
Total revenues, gains, and other support	2,483,156	(12,191)	—	2,470,965	2,561,682
Expenses:					
Program services:					
Programming and production	1,350,948	—	—	1,350,948	1,269,076
Broadcasting	292,512	—	—	292,512	267,160
Programming information	144,202	—	—	144,202	150,445
Supporting services:					
Fund raising	477,150	—	—	477,150	425,941
Management and general	506,212	—	—	506,212	523,765
Total expenses	2,771,024	—	—	2,771,024	2,636,387
Change in net assets	(287,868)	(12,191)	—	(300,059)	(74,705)
Net assets at beginning of year	3,723,962	450,586	229,979	4,404,527	4,479,232
Net assets at end of year	$ 3,436,094	438,395	229,979	4,104,468	4,404,527

See accompanying notes to financial statements.

WDAV-FM RADIO
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Statement of Cash Flows

Year ended June 30, 2012
(with comparative financial information for the year ended June 30, 2011)

		2012	2011
Cash flows from operating activities:			
Change in net assets	$	(300,059)	(74,705)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:			
Depreciation		138,188	140,607
Realized and unrealized losses (gains) on investments		65,779	(283,044)
Loss on disposal of assets		16,007	—
Increase in deferred revenue		3,917	385
(Increase) decrease in contributions receivable		(5,051)	73,075
Net cash used in operating activities		(81,219)	(143,682)
Cash flows from investing activities:			
Purchases of property and equipment		(57,194)	(68,217)
Proceeds from sales and maturities of investments		219,583	150,448
Net cash provided by investing activities		162,389	82,231
Net increase (decrease) in cash and cash equivalents		81,170	(61,451)
Cash and cash equivalents at beginning of year		93,464	154,915
Cash and cash equivalents at end of year	$	174,634	93,464

See accompanying notes to financial statements.

(1) Significant Accounting Policies

Description of the Entity

WDAV-FM Radio (the Station) is a public telecommunication entity operated as a department of The Trustees of Davidson College (Davidson College). The entity is a 100,000 watt classical music/fine arts station in the Greater Charlotte area.

Basis of Presentation

The financial statements are prepared on the accrual basis of accounting. Net assets and revenues, expenses, gains and losses, are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of WDAV-FM Radio and changes therein are classified and reported as follows:

- Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.
- Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met either by actions of WDAV-FM Radio and/or the passage of time.
- Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by WDAV-FM Radio. Generally, the donors of these assets permit WDAV-FM Radio to use all of, or part of, the income earned on related investments for general or specific purposes.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the time of the gift. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is provided based upon management's judgment including such factors as prior collection history, type of contribution and other economic factors.

Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues of the unrestricted net assets class.

Gains and losses on investments are generally reported as increases or decreases in temporarily restricted net assets when either time restricted or restricted by explicit external stipulations. However, when such losses result in the market value of a donor-restricted endowment fund declining below the related historic dollar value, the difference between the market and historic dollar values is reflected within unrestricted net assets. Gains and losses on perpetual trusts held by others are reported as increases or decreases in permanently restricted net assets.

Cash and Cash Equivalents

Cash and cash equivalents include interest bearing checking and money market accounts and short-term investments with an original maturity of three months or less.

Investments

The Station's investments are part of the pooled endowment funds of Davidson College (the pool). Investments are recorded at estimated fair value. In the case of certain of the pool's less marketable investments, principally real estate and private investments, the Station has applied a practical expedient and concluded that net asset value reported by the underlying fund approximates the fair value of the investment, unless it is probable that all or a portion of the investment will be sold for an amount different from net asset value. In some instances, changes in fair value may require use of estimates. Accordingly, such values may differ from the values that would have been used had a ready market for the investments existed. The estimated values, provided primarily by investment managers, are reviewed and evaluated by Davidson College personnel.

The underlying investments in the pool include various types of investment securities and investment vehicles. Investment securities are exposed to several risks, such as interest rate, currency, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the WDAV-FM Radio financial statements.

Property and Equipment

Property and equipment are recorded at cost or, in the case of donated property, at their estimated fair value at date of receipt. Depreciation is recorded using the straight-line method over the estimated useful life of each asset. Estimated useful life for each asset class is as follows: building – 50 years; land improvements – 10 years; transmission, antenna and tower equipment – 50 years; and studio and broadcast equipment – 5-20 years.

Donated Facilities and Administrative Support

Administrative support from the College consists of allocated costs and expenses incurred on behalf of WDAV-FM Radio, and is recorded as revenue and expenses in the statement of activities.

Recent Accounting Pronouncements

In January 2010, the FASB issued Accounting Standards Update No. 2010-06, *Fair Value Measurements and Disclosures: Improving Disclosures about Fair Value Measurements* (ASU 2010-06). ASU 2010-06 requires separate disclosure for the amounts and reasons for significant transfers in and out of Level 1 and Level 2 fair value measurements. ASU 2010-06 also requires entities to present separately information about purchases, sales, issuances, and settlements. ASU 2010-06 also clarifies existing disclosures for each class of assets and liabilities as well as about the valuation techniques and inputs used to measure fair value for recurring and nonrecurring Level 2 or Level 3 fair value measurements. The Station adopted the additional disclosure requirements of ASU 2010-06 in fiscal 2012.

Liquidity Risk

Liquidity risk represents the possibility that the Station may not be able to rapidly adjust the size of its portfolio holdings in times of high volatility and financial stress at a reasonable price. If the Station were forced to dispose of an illiquid investment at an inopportune time, it might be forced to do so at a substantial discount to fair value.

Market Price Risk

The value of securities held by the Station may decline in response to certain economic events, including those events impacting entities whose securities are owned and included in the investment portfolio. Those events impacting valuation may include, but are not limited to, economic changes, market fluctuations, regulatory changes, global and political instability, currency, interest rate and commodity price fluctuations. The Station attempts to manage this risk through diversification, ongoing due diligence of fund managers, and monitoring of economic conditions.

Prior Year Comparative Information

The statement of activities includes certain prior year summarized information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the organization's financial statements for the year ended June 30, 2011, from which the information was derived.

Use of Estimates

Management of WDAV-FM Radio has made a number of estimates and assumptions relating to the reporting of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

(2) Contributions Receivable

Contributions receivable, net, are summarized as follows at June 30, 2012 and 2011:

		2012	2011
Unconditional promises expected to be collected in:			
Less than one year	$	142,219	135,632
One year to five years		11,409	11,727
More than 5 years		11,409	13,805
		165,037	161,164
Less:			
Allowance for uncollectible contributions receivable		(2,539)	(2,927)
Unamortized discount (discount rates ranging from 4.0% to 6.56%		(4,310)	(5,100)
	$	158,188	153,137

(3) Investments

At June 30, 2012, WDAV-FM Radio had 4,164.28 units in the pooled endowment funds of Davidson College with a fair value of $440.01 per unit. At June 30, 2011, WDAV-FM Radio had 4,655.49 units in the pooled endowment funds of Davidson College with a fair value of $454.88 per unit. Cost of investments at June 30, 2012 and 2011 totaled $1,233,523 and $1,453,106, respectively. Investment fees of $3,799 and $4,273 were allocated to WDAV-FM Radio for the years ended June 30, 2012 and 2011, respectively.

Fair Value Hierarchy

The College determines fair value in accordance with ASC Topic 820. The standard establishes a framework for measuring fair value, a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs, and disclosure requirements for fair value measurements. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The three levels of fair value inputs that may be used to measure fair value under the hierarchy established by the standard are as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the asset or liabilities.

Fair value estimates are made at a specific point in time, based on available market information and judgments about the financial asset, including estimates of timing and amount of expected future cash flows, and the credit standing of the issuer. In some cases, the fair value estimates cannot be substantiated by comparison to independent markets. In addition, the disclosed fair value may not be realized in the immediate settlement of the financial asset and may not reflect any premium or discount that could result from offering for sale at one time an entire holding of a particular financial asset.

The following methods and assumptions were used to estimate the fair value for each class of financial instrument measured at fair value:

Cash and cash equivalents – The fair value of cash and cash equivalents is classified as Level 1 as it is based on quoted market prices in active markets.

Investments – The Station's investments consists of units in the pooled endowment fund of Davidson College. This fund is comprised of investments classified as Levels 1, 2 and 3. The determination of which category within the fair value hierarchy is appropriate for the Station's investments is based on the Station's ability to redeem the investments at net asset value at the date of the statement of financial position, and therefore, WDAV-FM Radio investments are classified as Level 2. There were no transfers between asset classes during fiscal year 2012. There are no funding commitments or redemption restrictions related to the Station's investment in the pooled endowment fund of Davidson College.

(4) Endowment Assets

The Station's investments consist of units in the pooled endowment fund of Davidson College. This fund consists of approximately 1,200 individual funds, of which the Station owns four, established for a variety of purposes, including both donor-restricted endowment funds and funds designated by The Board of Trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Station and The Board of Trustees of Davidson College has interpreted the Uniform Prudent Management of Institutional Funds Act (the Act) as providing, among other things, expanded spending flexibility by allowing, subject to a standard of prudence, the Station to spend from an endowment fund without regard to the book value of the corpus of the fund. This flexibility allows an expenditure that lowers the value of the corpus of an endowment below its book value. The Station classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment which are not expendable on a current basis, (b) the original value of subsequent gifts to the permanent endowment which are not expendable on a current basis and (c) accumulations to the permanent endowment, which are not expendable on a current basis, made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by Davidson College (the College) in a manner consistent with the standard of prudence prescribed by the Act. In accordance with the Act, the College considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund

(2) The purposes of the College and the donor-restricted endowment fund

(3) General economic conditions

(4) The possible effect of inflation and deflation

(5) The expected total return from income and the appreciation of investments

(6) Other resources of the College

(7) The investment policies of the College

Endowment Spending Policy

The College's spending policy is to appropriate 5% of the average of the December 31, year end market values for the immediately preceding five years for annual College operations. In establishing the policy, the College considered the expected return on its endowment. Accordingly, the College expects the current spending policy to allow its endowment to maintain its purchasing power by growing at a rate equal to planned payouts. Additional real growth will be provided through new gifts and any excess investment return.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the Act requires the Station and the College to retain as a fund of perpetual duration. These deficiencies may result from unfavorable market fluctuations that occur shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that were deemed prudent by The Board of Trustees. There were no deficiencies of this nature as of June 30, 2012 and 2011.

Return Objectives and Risk Parameters

The College's endowment fund exists to provide a consistent and growing stream of financial support to the Station and the College's annual budget in perpetuity while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Station must hold in perpetuity or for a donor-specified period as well as board-designated funds. Given this need to preserve long-term purchasing power, the investment objective for the endowed assets is to attain a real total return of at least 5% over long time horizons. Actual returns in any given year may vary from this amount.

At June 30, 2012, WDAV-FM Radio's endowment net asset composition was as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ —	—	229,979	229,979
Accumulated gains	318,587	280,207	—	598,794
Board-designated endowment funds	1,003,544	—	—	1,003,544
Total endowed net assets	$ 1,322,131	280,207	229,979	1,832,317

Changes in WDAV-FM Radio's endowment net assets for the fiscal year ended June 30, 2012:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, June 30, 2011	$ 1,590,251	297,449	229,979	2,117,679
Net realized and unrealized losses	(48,537)	(17,242)	—	(65,779)
Contributions	—	—	—	—
Appropriation of assets for expenditure	(219,583)	—	—	(219,583)
Endowment net assets, June 30, 2012	$ 1,322,131	280,207	229,979	1,832,317

At June 30, 2011, WDAV-FM Radio's endowment net asset composition was as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ —	—	229,979	229,979
Accumulated gains	367,124	297,449	—	664,573
Board-designated endowment funds	1,223,127	—	—	1,223,127
Total endowed net assets	$ 1,590,251	297,449	229,979	2,117,679

Changes in WDAV-FM Radio's endowment net assets for the fiscal year ended June 30, 2011:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, June 30, 2010	$ 1,522,934	232,170	229,979	1,985,083
Net realized and unrealized gains	217,765	65,279	—	283,044
Contributions	42,500	—	—	42,500
Appropriation of assets for expenditure	(192,948)	—	—	(192,948)
Endowment net assets, June 30, 2011	$ 1,590,251	297,449	229,979	2,117,679

(5) Income Taxes

WDAV-FM Radio is operated by Davidson College, a tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the Code). As such, the Station is generally exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. Accordingly, no provision for income taxes is made in the financial statements. As of June 30, 2012, there were no material uncertain tax positions.

(6) Restrictions and Limitations on Net Assets Balances

Temporarily restricted net assets consist of outstanding pledges available for operational support and unappropriated earnings on permanently restricted net assets.

Permanently restricted net assets consist of endowment funds held in perpetuity. The income from these investments held in perpetuity is available for operations.

(7) Benefit Plans

WDAV-FM Radio's employees are eligible to participate in the College's defined contribution retirement plan. In addition, the College provides postretirement health care benefits to its retired employees.

It is not possible to present separately the employer contributions under the defined contribution retirement plan or to present separately the net postretirement benefit cost or the actuarially determined accumulated benefit obligation for WDAV-FM Radio for the postretirement health care benefits because no determination has been made of the allocation of such amounts between the College and WDAV-FM Radio.

(8) Subsequent Events

Management evaluated subsequent events after the balance sheet date of June 30, 2012 through December 21, 2012, which was the date the financial statements were available to be issued, and determined that there were no additional items to disclose.