



**KUER-FM RADIO**  
**(A Public Telecommunications Department of the University of Utah)**

Financial Statements

June 30, 2010

(With Independent Auditors' Report Thereon)

**KUER-FM RADIO**  
**(A Public Telecommunications Department of the University of Utah)**

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## Independent Auditors' Report

KUER-FM Radio  
The University of Utah Board of Trustees  
and  
Michael K. Young, President:

We have audited the accompanying statement of net assets of KUER-FM Radio (a public telecommunications department of the University of Utah) as of June 30, 2010, and the related statements of revenues, expenses, and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of KUER-FM Radio's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative information has been derived from the KUER-FM Radio's 2009 financial statements, and in our report dated December 18, 2009, we expressed an unqualified opinion on the financial statements.

We conducted our audit 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 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 KUER-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.

As discussed in Note 1(a) to the financial statements, the financial statements present the financial position of KUER-FM Radio, a public telecommunications department of the University of Utah, and do not purport to, and do not present the financial position of the University of Utah as of June 30, 2010, and the changes in its financial position or its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of KUER-FM Radio as of June 30, 2010, and the changes in its financial position and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.



In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2010, on our consideration of KUER-FM Radio's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis presented on pages 3 through 7 is not a required part of the basic financial statements of KUER-FM Radio, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit this information and express no opinion on it.

KPMG LLP

December 28, 2010

# KUER-FM RADIO

(A Public Telecommunications Department of the University of Utah)

## MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2010

### INTRODUCTION

The following discussion and analysis provides an overview of the financial position and activities of KUER-FM Radio (the Station) as of and for the year ended June 30, 2010, with selected comparative information as of and for the year ended June 30, 2009. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto.

The Station is a public radio station licensed to the University of Utah. Founded in 1960, the Station was one of the original 100 National Public Radio (NPR) affiliates. The Station broadcasts national news and information programs provided by NPR, Public Radio International and American Public Media, local news and information programs, as well as jazz music. Through an extensive translator network, the Station reaches the vast majority of the State of Utah's population. Though the Station is one of five noncommercial radio signals available to Salt Lake City, Utah residents, the Station's audience is at an all-time high, reaching over 145,000 listeners each week.

### FINANCIAL HIGHLIGHTS

The Station's financial position at June 30, 2010 included total assets of \$2,576,039 and total liabilities of \$230,820. Net assets, which represent the residual interest in the Station's assets after liabilities are deducted, increased by \$174,942 to \$2,345,219 at June 30, 2010.

Changes in net assets represent the total activity of the Station, which results from all revenues, expenses, gains, and losses, and are summarized for the years ended June 30, 2010 and 2009 as follows:

	<u>2010</u>	<u>2009</u>
Total revenues	\$ 2,931,833	\$ 3,138,490
Total expenses	<u>2,756,891</u>	<u>2,764,741</u>
Increase in net assets	<u>\$ 174,942</u>	<u>\$ 373,749</u>

Fiscal year 2010 revenues decreased by 6.6% or \$206,657, while expenses decreased by less than one percent or \$7,850. As a result, the increase in net assets for fiscal year 2010 was \$198,807 less than fiscal year 2009.

### USING THE FINANCIAL STATEMENTS

The Station's financial report is prepared on the accrual basis of accounting and conforms to principles of *Accounting and Financial Reporting for Public Telecommunication Entities* published by the Corporation for Public Broadcasting (CPB), which conforms to U.S. generally accepted accounting principles and includes three financial statements: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows.

## KUER-FM RADIO

(A Public Telecommunications Department of the University of Utah)

### MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2010

#### STATEMENT OF NET ASSETS

The Statement of Net Assets presents the financial position of the Station at the end of the fiscal year and includes all assets and liabilities of the Station. The difference between total assets and total liabilities is net assets and is one indicator of the current financial condition of the Station, while the change in net assets is an indicator of whether the overall financial condition has improved or worsened during the year.

A summarized comparison of the Station's assets, liabilities, and net assets at June 30, 2010 and 2009 follows:

	<u>2010</u>	<u>2009</u>
Current assets	\$1,604,556	\$1,529,145
Noncurrent assets	971,483	921,346
Total assets	2,576,039	2,450,491
Current liabilities	230,820	280,214
Net assets	<u>\$2,345,219</u>	<u>\$2,170,277</u>

A review of the Station's Statement of Net Assets as of June 30, 2010 and 2009 shows that the Station still maintains its favorable financial foundation. This financial position results from the efficient management and wise use of its financial resources.

Current assets consist of cash, receivables, prepaid expenses, and investments. Total current assets increased by \$75,411. The increase was due primarily to increases in cash, accounts receivable, and investments. These increases were offset by a decrease in prepaid expense.

Noncurrent assets consist of capital assets net of accumulated depreciation. Capital assets increased by \$50,137 during the 2010 fiscal year. Capital purchases totaling \$180,520 contributed to the increase.

Current liabilities consist of accounts payable and accrued personnel services. Total current liabilities decreased by \$49,394 during fiscal year 2010 due to a decrease in accounts payable of \$54,924. This decrease was offset by an increase in accrued personnel services of \$5,530.

#### NET ASSETS

Net assets represent the residual interest of the Station's assets after liabilities are deducted. *Invested in capital assets* represents the Station's capital assets net of accumulated depreciation. *Restricted expendable net assets* are subject to externally imposed restrictions governing their use. Although *unrestricted net assets* are not subject to externally imposed stipulations, most of the Station's unrestricted net assets have been designated for various programming and broadcasting needs, as well as capital projects.

## KUER-FM RADIO

(A Public Telecommunications Department of the University of Utah)

### MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2010

#### STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

The Statement of Revenues, Expenses, and Changes in Net Assets presents the Station's results of operations. A comparison of the Station's revenues, expenses, and changes in net assets for the years ended June 30, 2010 and 2009 follows:

	<u>2010</u>	<u>2009</u>
Operating revenues	\$ 7,950	\$ 9,105
Operating expenses	<u>2,756,891</u>	<u>2,764,741</u>
Operating loss	(2,748,941)	(2,755,636)
Nonoperating revenues	<u>2,923,883</u>	<u>3,129,385</u>
Increase in net assets	174,942	373,749
Net assets – beginning of year	<u>2,170,277</u>	<u>1,796,528</u>
Net assets – end of year	<u><u>\$ 2,345,219</u></u>	<u><u>\$ 2,170,277</u></u>

The Station's main revenue sources are the University of Utah, CPB, individuals, foundations, corporations, and the State of Utah. The Station also receives funds from the National Telecommunications and Information Administration (NTIA) for specialized capital projects. The NTIA funds have to be applied for each year, and grants are not awarded every year. The Station, as in the past, will continue to aggressively seek funding from all possible sources consistent with its mission.

The Station's nonoperating revenues decreased by \$205,502 in fiscal year 2010. The decrease in revenues was primarily due to a decrease in direct support from the University of Utah of \$11,189. Matching grant revenue from the State of Utah decreased by \$16,875. Indirect support from the University of Utah decreased by \$3,595. Indirect in-kind support from governmental entities decreased by \$9,263 primarily due to less revenue from the South Central Utah TV Association CIB grant. Federal grants revenue decreased by \$265,783 primarily due to less grant revenue from NTIA. Underwriting revenue decreased by \$38,162 primarily due to the challenging economic environment in which to raise money from foundations and corporations. Other revenue decreased by \$22,498 primarily due to fewer special events being held in fiscal year 2010. These decreases were offset with an increase of \$150,591 in contributions primarily due to more revenue being received from individual donors through on-air fund drives and promotion of the Station's major donor program. Investment income increased by \$11,272 primarily due to an increase in the market value of investments.

## KUER-FM RADIO

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### MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2010

A comparative summary of the Station's operating expenses by functional classification for the years ended June 30, 2010 and 2009 follows:

	<u>2010</u>	<u>2009</u>
Program services		
Programming and production	\$1,317,399	\$1,298,767
Broadcasting	441,603	462,260
Program information	208,383	227,714
Total program services	<u>1,967,385</u>	<u>1,988,741</u>
Support services		
Management and general	245,464	265,471
Fundraising and membership development	544,042	510,529
Total support services	<u>789,506</u>	<u>776,000</u>
Total expenses	<u><u>\$2,756,891</u></u>	<u><u>\$2,764,741</u></u>

The Station's operating expenses decreased by \$7,850 in fiscal year 2010. Broadcasting expenses decreased by \$20,657 primarily due to a decrease in personnel expenses and expenses related to the digital conversion. Program information expenses decreased by \$19,331 primarily due to fewer special events being held. Management and general expenses decreased by \$20,007 primarily due to decreases in office remodeling expenses. Programming and production expenses increased by \$18,632 primarily due to an increase in expenses related to program purchases and production. Fundraising and membership development increased by \$33,513 primarily due to personnel, major donor, and membership database expenses.

### STATEMENT OF CASH FLOWS

The Statement of Cash Flows provides additional information about the Station's financial activity by reporting the major sources and uses of cash.

The Station's cash increased modestly by \$5,228 primarily due to an increase in net cash used by operating activities and a decrease in cash provided by noncapital financing activities. Capital expenditures increased by \$43,829 from the prior year. The Station's significant sources of cash provided by noncapital financing activities include funding from the University of Utah, State of Utah, CPB, and contributions.

### CURRENT FACTORS HAVING PROBABLE FUTURE FINANCIAL SIGNIFICANCE

The Station faces various financial challenges in the future. Like much of the public radio system, the Station has made considerable investments in digital technologies to transition from analog to digital-based broadcasting in the Station's studio and at remote sites where translators are housed. The Station is now broadcasting three digital signals along with its analog signal. It is unknown to what degree these new digital signals will result in more listeners and, in turn, more business and listener revenues.

## **KUER-FM RADIO**

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### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2010

The Station continues the installation of three new transmitters in the southern and southeastern parts of Utah. These installations have ongoing, annual costs attached to them. The move of the Station's main transmitter from its current location at Mt. Vision to Farnsworth Peak, both in the Oquirrh Mountain range west of Salt Lake City, is progressing. This transmitter move will require significant one-time costs over the next two fiscal years. Fundraising for these projects include 50/50 matching federal grant monies and individual gifts from donors and foundations.

Portable handheld devices such as iPods, smart phones, and blackberries are ongoing challenges to traditional media forms. This is largely due to these devices' enormous capacity to store music, pictures, and video. The Station hopes to lure young listeners away from portable, handheld devices with its investment in digital, high definition radio technology.

The entire public radio system continues to be increasingly dependent on individual, foundation, and corporate donations as federal and state sources of revenue have declined. The Station still faces an uncertain future with state and federal funding. As a result, private funding sources will remain very important.

The most significant short-term challenges are those outside the Station's control. These challenges include the volatility of the state and national economies and the current economic recession. The wars in Iraq and Afghanistan, and unexpected natural disasters are beyond the Station's control. If crises arise that draw upon local foundations, new revenues would have to be found to replace those lost from foundations.

The Station will continue to be prudent in its long-term planning. While it is not possible to predict future listener behaviors, management will be aggressive in meeting these economic uncertainties to maintain its favorable financial position in this rapidly evolving industry.

# KUER-FM RADIO

(A Public Telecommunications Department of the University of Utah)

## STATEMENT OF NET ASSETS

As of June 30

	<u>2010</u>	<u>[For Comparison Only] 2009</u>
<b>ASSETS</b>		
Current assets		
Cash	\$ 657,132	\$ 566,087
Restricted cash	192,447	278,264
Receivables, net (Note 2)	327,659	259,138
Restricted receivables (Note 2)	363,851	361,013
Prepaid expense	9,832	13,837
Investments (Note 4)	53,635	50,806
Total current assets	<u>1,604,556</u>	<u>1,529,145</u>
Noncurrent assets		
Capital assets, net (Note 3)	<u>971,483</u>	<u>921,346</u>
Total noncurrent assets	<u>971,483</u>	<u>921,346</u>
Total assets	<u>2,576,039</u>	<u>2,450,491</u>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable	89,629	144,553
Accrued personnel services	<u>141,191</u>	<u>135,661</u>
Total current liabilities	<u>230,820</u>	<u>280,214</u>
<b>NET ASSETS</b>		
Invested in capital assets	971,483	921,346
Restricted – expendable	556,298	639,277
Unrestricted	<u>817,438</u>	<u>609,654</u>
Total net assets	<u>\$ 2,345,219</u>	<u>\$ 2,170,277</u>

See accompanying notes to financial statements

## KUER-FM RADIO

(A Public Telecommunications Department of the University of Utah)

### STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Years ended June 30

	2010	[For Comparison Only] 2009
OPERATING REVENUES		
Sales and services	\$ 7,950	\$ 9,105
Total operating revenues	7,950	9,105
OPERATING EXPENSES		
Broadcasting	441,603	462,260
Programming and production	1,317,399	1,298,767
Program information	208,383	227,714
Management and general	245,464	265,471
Fundraising and membership development	544,042	510,529
Total operating expenses	2,756,891	2,764,741
Operating loss	(2,748,941)	(2,755,636)
NONOPERATING REVENUES (EXPENSES)		
Direct support from University of Utah	461,146	472,335
Direct support from State of Utah		16,875
Indirect support from University of Utah	258,604	262,199
Indirect in-kind support from governmental entities	3,630	12,893
Federal grants	295,445	561,228
Contributions	1,188,970	1,038,379
Underwriting	671,560	709,722
Investment income (loss) (Note 4)	6,203	(5,069)
Other	38,325	60,823
Total nonoperating revenues	2,923,883	3,129,385
Increase in net assets	174,942	373,749
NET ASSETS		
Net assets – beginning of year	2,170,277	1,796,528
Net assets – end of year	\$ 2,345,219	\$ 2,170,277

See accompanying notes to financial statements

**KUER-FM RADIO**

(A Public Telecommunications Department of the University of Utah)

**STATEMENT OF CASH FLOWS**

Years ended June 30

	<b>2010</b>	<b>[For Comparison Only] 2009</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from sales and services	\$ 7,875	\$ 8,605
Cash payments for salaries, wages, and benefits	(1,223,097)	(1,224,180)
Cash payments for other operating activities	(1,090,756)	(981,255)
Net cash used by operating activities	<u>(2,305,978)</u>	<u>(2,196,830)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Cash received from the University of Utah	461,146	479,835
Cash received from State of Utah		16,875
Cash received from Corporation for Public Broadcasting	256,829	200,215
Cash received from other federal grants	59,624	72,626
Cash received from contributions	1,147,223	1,015,279
Cash received from underwriting	553,571	681,242
Cash received from other income	9,959	56,163
Net cash provided by noncapital financing activities	<u>2,488,352</u>	<u>2,522,235</u>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITY</b>		
Capital expenditures	(180,520)	(136,691)
Net cash used by capital financing activity	<u>(180,520)</u>	<u>(136,691)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITY</b>		
Cash received from interest income	3,374	4,763
Net cash provided by investing activity	<u>3,374</u>	<u>4,763</u>
Net increase in cash	5,228	193,477
Cash, beginning of year	<u>844,351</u>	<u>650,874</u>
Cash, end of year	<u>\$ 849,579</u>	<u>\$ 844,351</u>



See accompanying notes to financial statements

**KUER-FM RADIO****(A Public Telecommunications Department of the University of Utah)****STATEMENT OF CASH FLOWS**

Years ended June 30

	<b>2010</b>	<b>[For Comparison Only] 2009</b>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>		
Operating loss	\$(2,748,941)	\$(2,755,636)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	130,383	111,145
Indirect support from University of Utah	258,604	262,199
Indirect support from government entities	3,630	12,893
In-kind donations	95,810	78,512
Change in assets and liabilities:		
Prepaid expenses	4,005	1,104
Receivables related to operating revenue	(75)	(500)
Accounts payable and accruals	(49,394)	93,453
Net cash used by operating activities	<u>(2,305,978)</u>	<u>(2,196,830)</u>
<b>NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITY</b>		
Increase (decrease) in fair value of investments	<u>\$ 2,829</u>	<u>\$ (9,832)</u>

See accompanying notes to financial statements

# KUER-FM RADIO

(A Public Telecommunications Department of the University of Utah)

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## NOTES TO FINANCIAL STATEMENTS

June 30, 2010

### (1) Summary of Significant Accounting Policies

The accompanying financial statements have been prepared on the accrual basis of accounting and conform to principles of *Accounting and Financial Reporting for Public Telecommunications Entities*, published by the Corporation for Public Broadcasting (CPB), which conform to U.S. generally accepted accounting principles.

#### (a) Organization

KUER-FM Radio (the Station) is operated by the University of Utah (the University), Salt Lake City, Utah. There are common management and facilities between the Station and two affiliated television stations, KUED-TV and KUEN-TV. Certain Station personnel share their time among the Station, KUED-TV, and KUEN-TV.

All Governmental Accounting Standards Board (GASB) pronouncements and all applicable Financial Accounting Standards Board (FASB) pronouncements are applied by the Station in the accounting and reporting of its operations. However, in accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Station has elected not to apply FASB pronouncements issued after November 30, 1989. The University sets accounting policy for the University as a whole and for all separately issued financial statements. The Station, as a department of the University, follows those accounting policies.

Effective with the 2009-2010 fiscal year, the Station implemented the following new standards issued by the GASB:

- GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. The effects of this standard were immaterial to the Station and therefore had no effect on the financial statements.
- GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The effects of this standard were immaterial to the Station and therefore had no effect on the financial statements.

#### (b) Basis of Accounting

All statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Operating activities include all revenues and expenses, derived on an exchange basis, used to support the service efforts of the Station. Additionally, donations in-kind that are deemed to support the service efforts of the Station, as defined by its mission, goals, and objectives, are recorded as operating expenses. Such donations in-kind are also reflected as a part of nonoperating revenues as they are considered nonexchange transactions as defined by GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*.

## KUER-FM RADIO

(A Public Telecommunications Department of the University of Utah)

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### NOTES TO FINANCIAL STATEMENTS

June 30, 2010

The accounting for revenues of the Station recorded in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets is as follows:

- **Sales and services** – Sales and services represent funds received from locally produced programming and facilities rentals. These amounts are recorded as services are rendered.
- **Direct support from the University of Utah** – Direct support from the University represents funds received to support various Station personnel and underwriting support. These amounts are recorded as revenue and associated expense at the estimated fair value or actual amounts where known at the time such costs are incurred.
- **Direct support from the State of Utah** – Direct support from the State of Utah represents funds received to match federal funding from the Department of Commerce. These funds are used to support the Station's broadcasting department. These revenues are recognized when legally effective, which is the first day of the State of Utah's fiscal year, July 1.
- **Indirect support from the University of Utah** – Indirect support from the University represents costs associated with certain administrative and other services provided by the University. These amounts are recorded as revenue and associated expense at the estimated fair value or actual amounts where known at the time such costs are incurred. The Station uses the University's negotiated facilities and administrative rate for other sponsored programs to determine indirect support. The rate is assessed against eligible Station expenses in deriving the amount recognized as indirect University support.
- **Indirect in-kind support from governmental entities** – Indirect in-kind support from governmental entities represents services provided by governmental entities and certain transmitter expenses. This support is recognized throughout the year as costs are incurred and expended by other governmental entities.
- **Federal grants** – Federal grants represent funds received from federal agencies to assist in the purchase of capital assets and to support programming and operating activities. These revenues are recognized at the time the Station has met the eligibility requirements as defined by the grant.
- **Corporation for Public Broadcasting** – Corporation for Public Broadcasting represents funds received from the CPB to support the operations of the Station, including personnel, programming and production, broadcasting, program information, educational services, training, and purchase of capital assets. These revenues are recognized as federal grants at the time the Station has met the eligibility requirements as defined by the grant.
- **Contributions** – Contributions represent funds received from individuals through on-air, direct mail, and special event fundraisers and are used to purchase national and locally produced programming. Pledges are recognized as revenue when a pledge is made by a donor and the amount is estimable and deemed probable of collection. Pledges for endowments are not recognized as receivable per GASB Statement No. 33.
- **Underwriting** – Underwriting represents funds received from local corporations and foundations to purchase national and locally produced programming. Underwriting revenues are recognized as revenues and expenses upon execution of an underwriting contract.

# KUER-FM RADIO

(A Public Telecommunications Department of the University of Utah)

## NOTES TO FINANCIAL STATEMENTS

June 30, 2010

(c) **Investments**

In accordance with the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, investments are stated at their fair value. GASB Statement No. 31 requires that certain investments be reported at fair value and that investment income includes changes in the fair value of these investments. Such changes in fair value are reflected in investment income (loss) in the Statement of Revenues, Expenses, and Changes in Net Assets.

(d) **Capital Assets**

Capital assets are recorded at cost or, in the case of donated equipment, at estimated fair value at the date of donation. Depreciation is computed using the straight-line method over the following estimated useful lives:

Building	40 years
Transmitter	15 years
Broadcast equipment	5 to 10 years

Expenditures for repairs and maintenance are charged to expense as incurred.

(e) **Income Taxes**

The University, as a political subdivision of the State of Utah, has a dual status for federal income tax purposes. The University is both an Internal Revenue Code (IRC) Section 115 organization and an IRC Section 501(c)(3) charitable organization. This status exempts the University from paying federal income tax on revenue generated by activities that are directly related to the University's mission. This exemption does not apply to unrelated business activities. On these activities, the University is required to report and pay federal and state income tax. The Station, as a separate department of the University, shares in these same tax exemptions.

(f) **Use of Estimates**

Management of the Station has made estimates and assumptions relating to the reporting of assets, liabilities, revenues, and expenses to prepare these financial statements in conformity with U.S. generally accepted accounting principles. Actual results could differ from those estimates.

(g) **Restricted Resources**

When the Station has both restricted and unrestricted resources available to finance a particular program, it is the Station's practice to use restricted resources before unrestricted resources.

(h) **Disclosures**

Financial information for fiscal year ended June 30, 2009 is included for comparison only and is not complete. Complete information is available in the separately issued financial statements for that year.

## KUER-FM RADIO

(A Public Telecommunications Department of the University of Utah)

### NOTES TO FINANCIAL STATEMENTS

June 30, 2010

#### (2) Accounts Receivable

Accounts receivable at June 30 consist of the following:

	<b>2010</b>	<b>[For Comparison Only] 2009</b>
Federal grants – restricted	\$ 340,005	\$ 361,013
Underwriting	220,200	199,121
Contributions	185,161	132,677
Other – restricted	23,846	
Other	700	625
	<u>769,912</u>	<u>693,436</u>
Less allowance for doubtful accounts	<u>(78,402)</u>	<u>(73,285)</u>
	<u><u>\$ 691,510</u></u>	<u><u>\$ 620,151</u></u>

#### (3) Capital Assets

Capital assets at June 30, 2010 consist of the following:

	<b>Beginning balance</b>	<b>Additions</b>	<b>Retirements</b>	<b>Ending balance</b>
Transmitter	\$ 183,341			\$ 183,341
Broadcast equipment	471,124	\$ 180,520	\$ 16,474	635,170
Building	1,494,199			1,494,199
Total	<u>2,148,664</u>	<u>180,520</u>	<u>16,474</u>	<u>2,312,710</u>
Less accumulated depreciation				
Transmitter	145,661	6,280		151,941
Broadcast equipment	268,967	74,552	16,474	327,045
Building	812,690	49,551		862,241
Total accumulated depreciation	<u>1,227,318</u>	<u>130,383</u>	<u>16,474</u>	<u>1,341,227</u>
Capital assets, net	<u><u>\$ 921,346</u></u>	<u><u>\$ 50,137</u></u>	<u><u>\$ —</u></u>	<u><u>\$ 971,483</u></u>

#### (4) Investments

The State of Utah Money Management Council (Council) has the responsibility to advise the State Treasurer about investment policies, promote measures and rules that will assist in strengthening the banking and credit structure of the State, and review the rules adopted under the authority of the State of Utah Money Management Act (Act) that relate to the deposit and investment of public funds.

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Except for endowment funds, the University follows the requirements of the Act (Utah Code, Section 51, Chapter 7) in handling its depository and investment transactions. The Act requires the depositing of University funds in a qualified depository. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Council.

The Act defines the types of securities authorized as appropriate investments for the University's non-endowment funds and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

These statutes authorize the University to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investors Service or Standard & Poor's; bankers' acceptances; obligations of the United States Treasury including bills, notes, and bonds; bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer's Investment Fund (PTIF).

The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Act, Section 51-7, Utah Code Annotated, 1953, as amended. The Act established the Council which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State, and participants share proportionally in any realized gains or losses on investments.

The Station participates in the University's endowment pool. The University holds the investments within the pool on behalf of the Station. The Station holds an interest in the University's investment pool, but not in specific investment instruments within that pool. The Station carries its interest at fair value and had a net unrealized, noncash gain of \$2,829 for the year ended June 30, 2010.

For endowment funds, the University follows the requirements of the UPMIFA, State Board of Regents' Rule 541, Management and Reporting of Institutional Investments (Rule 541), and the University's investment policy and endowment guidelines.

The UPMIFA, Rule 541, and the University's endowment guidelines allow the University to invest endowment funds (including gifts, devises, or bequests of property of any kind from any source) in any of the above investments or any of the following subject to satisfying certain criteria: professionally managed pooled or commingled investment funds registered with the Securities and Exchange Commission or the Comptroller of the Currency (e.g., mutual funds); professionally managed pooled or commingled investment funds created under 501(f) of the Internal Revenue Code which satisfy the conditions for exemption from registration under Section 3(c) of the Investment Company Act of 1940; any investment made in accordance with the donor's directions in a written instrument; and any alternative investment funds that derive returns primarily from high yield and distressed debt (hedged or non-hedged), private capital (including venture capital, private equity, both domestic and international), natural resources, and private real estate assets or absolute return and long/short hedge funds.

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The Station's participation in the University's endowment pool exposes it to a portion of the applicable risks.

**Interest Rate Risk:** Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the Act or the UPMIFA and Rule 541, as applicable. For endowment funds Rule 541 requires that investments be made as a prudent investor would, by considering the purposes, terms, distribution requirements, and other circumstances of the endowments and by exercising reasonable care, skill, and caution.

**Credit Risk:** Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The University's policy for reducing its exposure to credit risk is to comply with the Act, the UPMIFA, and Rule 541, as previously discussed.

**Custodial Credit Risk:** Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the University will not be able to recover the value of its investments that are in the possession of an outside party. The University's policy for reducing its exposure to custodial credit risk is to comply with applicable provisions of the Act. As required by the Act, all applicable securities purchased were delivered versus payment and held in safekeeping by a bank. Also, as required, the ownership of book-entry-only securities, such as U.S. Treasury or Agency securities, by the University's custodial bank was reflected in the book-entry records of the issuer and the University's ownership was represented by a receipt, confirmation, or statement issued by the custodial bank.

**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. The University's policy for reducing this risk of loss is to comply with the Rules of the Council or the UPMIFA and Rule 541, as applicable. For endowments, the University, under Rule 541, is permitted to establish its own investment policy which adheres to the guidelines established by UPMIFA. Accordingly, the University's Pool Asset Allocation Guidelines allocates endowment funds in the following asset classes:

<u>Asset class</u>	<u>Target allocation</u>	<u>Allocation range</u>
Global marketable equities	45%	20% – 60%
Global marketable fixed income	30%	25% – 50%
Alternatives	25%	5% – 30%

The University diversifies assets among multiple investment managers of varying investment styles to the extent that such diversification can be expected to reduce risk without sacrificing expected investment return, or that such diversification may produce greater investment return without incurring any greater risk.

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### NOTES TO FINANCIAL STATEMENTS

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#### (5) Pension Plans and Retirement Benefits

As required by state law, eligible nonexempt employees (as defined by the U.S. Fair Labor Standards Act) of the Station are covered by the Utah State and School Contributory or Noncontributory Retirement System (Systems) and eligible exempt employees (as defined by the U.S. Fair Labor Standards Act) are covered by the Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF), Fidelity Investments (Fidelity), or Vanguard Group, Inc. (Vanguard).

The Station contributes to the Systems that are multi-employer, cost-sharing, defined benefit pension plans. The Systems provide refunds, retirement benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective sections of Chapter 49 of the *Utah Code Annotated, 1953*, as amended. The Utah State Retirement Office Act provides for the administration of the Utah Retirement Systems Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Systems. A copy of the report may be obtained by writing to the Utah Retirement Systems.

Plan members in the Utah State and School Contributory Retirement System are required to contribute 6.00% of their annual covered salaries, all of which is paid by the Station, and the Station is required to contribute 9.73% of their annual salaries. In the Utah State and School Noncontributory Retirement System, the Station is required to contribute 14.22% (including 1.50% to a 401(k) salary deferral program) of plan members' annual salaries. The contribution requirements of the Systems are authorized by statute and specified by the Board, and the contribution rates are actuarially determined.

TIAA-CREF and Fidelity provide individual retirement fund contracts with each participating employee. In addition, Vanguard also provided individual retirement fund contracts through November 2009, at which time it was dropped as a provider. Employees may allocate contributions by the Station to any or all of the providers and the contributions to the employee's contract(s) become vested at the time the contribution is made. Employees are eligible to participate from the date of employment and are not required to contribute to the fund. Benefits provided to retired employees are based on the value of the individual contracts and the estimated life expectancy of the employee at retirement. For the year ended June 30, 2010, the Station's contribution to this defined contribution pension plan was 14.20% of the employees' annual salaries. The Station has no further liability once contributions are made.

For the years ended June 30, 2010, 2009, and 2008, the Station's contributions to the Systems, TIAA-CREF, Fidelity, and Vanguard were equal to the required amounts as follows: \$117,217, \$120,386, and \$111,932, respectively.

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#### **(6) Risk Management**

The Station participates in the University's insurance coverage program for commercial general liability, automobile, errors and omissions, and property (building and equipment) through policies administered by the Utah State Risk Management Fund. Employees of the Station and authorized volunteers are covered by workers' compensation and employees' liability through the Workers' Compensation Fund of Utah.

In addition, the Station participates in the University-maintained self-insurance funds for health care, dental, and auto/physical damage, which are held in a trust with an independent financial institution in compliance with Medicare reimbursement regulations. The Station's participation in these programs is funded through indirect support provided by the University.

#### **(7) Commitments**

The Station's rent for the year ended June 30, 2010 totaled \$19,049 for land where the Station's transmitters are located. The station signed lease agreements for two new transmitter sites during fiscal year 2010. The rental payments under the oldest lease are approximately \$10,449 per year expiring in July 2012, with a renewal option for an additional 10 years. The rental payments under the first new lease are approximately \$10,800 per year expiring in August 2014, with a renewal option for an additional one year. The rental payments under the second new lease are approximately \$4,800 per year expiring in October 2014, with a renewal option for an additional one year.