

WUOT-FM
A PUBLIC TELECOMMUNICATIONS ENTITY
OPERATED BY THE UNIVERSITY OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2007, AND JUNE 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

WUOT-FM Radio is operated by the University of Tennessee at Knoxville. The station is managed by the University's Radio Center, which is a part of the Knoxville campus. Only funds administered by the university are included in the financial statements. There are no financially interrelated organizations associated with the station that are not administered by the university.

BASIS OF PRESENTATION

The financial statements for the radio station have been prepared in conformity with the accounting practices established by the Corporation for Public Broadcasting (CPB).

BASIS OF ACCOUNTING

For financial statement purposes, WUOT-FM follows pronouncements issued by the Governmental Accounting Standards Board (GASB) due to its relationship with the University of Tennessee and follows the same reporting principles as the university. The university is considered a special-purpose government engaged only in business-type activities. Accordingly, the financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Gifts, grants, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. All significant interfund transactions have been eliminated.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed to the extent that those standards do not conflict with or contradict guidance of the GASB. The station has the option of following private-sector guidance issued subsequent to November 30, 1989, subject to the above limitation. The station has elected not to follow private-sector guidance issued subsequent to November 30, 1989.

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The station has no operating revenues. Operating expenses for the station include: 1) programming and production, 2) broadcasting, 3) program information and promotion, 4) management and general, 5) fund raising and membership development, 6) underwriting and grant solicitation, and 7) depreciation.

All other activity is nonoperating in nature. This activity includes: 1) a community service grant, 2) state appropriations, 3) investment income, 4) underwriting revenues, 5) additions to permanent endowments, 6) gifts, including memberships and subscriptions, and 7) a Public Telecommunications Facilities Programming (PTFP) grant.

When both restricted and unrestricted resources are available for use, generally it is the station's policy to use restricted resources first.

CAPITAL ASSETS

Capital assets, which include only equipment, are reported in the statement of net assets at historical cost or at fair value at date of donation, less accumulated depreciation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets' useful lives are not capitalized.

Equipment is capitalized when the unit acquisition cost is \$5,000 or greater and the estimated useful life is one year or more. Equipment is depreciated using the straight-line method over the estimated useful lives of the assets, which range from 5 to 20 years.

NET ASSETS

The station's net assets are classified as follows:

Invested in capital assets: This represents the station's total investment in capital assets, net of accumulated depreciation. The station has no related debt.

Expendable restricted net assets: Expendable restricted net assets include resources for which the station is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

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Nonexpendable restricted net assets: Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may be expendable or added to principal.

Unrestricted net assets: Unrestricted net assets represent resources derived from state appropriations, gifts, grants, underwriting revenues, and investment income. These resources are used for transactions relating to the general operations of the station, and may be used at the discretion of the station to meet current expenses for any purpose. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the station must spend equally between the restricted and unrestricted resources.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the station's portion of the readily available sources of cash from the university such as demand deposits, certificates of deposit, and temporary investments in marketable securities. The categorization of the university's cash and cash equivalents as to custodial risk is presented in the university's financial statements. To review the audit report of the University of Tennessee, please contact the Controller's Office, The University of Tennessee, 201 Andy Holt Tower, Knoxville, Tennessee 37996-0100.

INVESTMENTS

Investments are valued at fair value. Disclosures as to custodial credit risk, interest rate risk, credit risk, concentration of credit risk, and foreign currency risk are presented in the university's financial statements.

COMPENSATED ABSENCES

The university's employees accrue annual leave at varying rates, depending on length of service or classification. Some employees also earn compensatory time. Generally, all permanent full-time employees and certain part-time employees are entitled to accrue and carry forward calendar year maximums of 42 days annual vacation leave. The amount of these liabilities and their related benefits are reported in the statement of net assets.

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INCOME TAXES

As part of the university, the station is exempt from federal income taxes under Section 115 of the *Internal Revenue Code*.

NOTE 2. INDIRECT ADMINISTRATIVE SUPPORT

Indirect administrative support is support the station receives from the university, including, but not limited to, the use and care of the facilities and administrative oversight by university officials. For the years ended June 30, 2007, and June 30, 2006, WUOT received indirect administrative support totaling \$143,370, and \$148,306, respectively. These amounts are not reflected in the accompanying financial statements.

NOTE 3. OPERATING LEASES

In May 1987, the station entered into a noncancelable operating lease for a tower and a transmitter building. Currently, this site is the station's auxiliary transmitting site. The lease term is 25 years with a renewal option of 10 additional years. The first two payments were set at \$7,000 annually. Payments thereafter are indexed based on the United States Department of Labor's Consumer Price Index.

Expenses under the lease were \$12,460/year for the years ended June 30, 2007, and June 30, 2006. The following is a schedule by years of future minimum rental payments (based on the current Consumer Price Index) required under the lease as of June 30, 2007.

Year Ended June 30	
2008	\$ 12,460
2009	12,460
2010	12,460
2011	12,460
2012	<u>12,460</u>
Total minimum payments required	<u>\$ 62,300</u>

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In January 2002, the station entered into another operating lease for the use of a tower and for space in a transmitter building. The station began using this tower and transmitter building as its main transmitting site in fiscal year 2006. The lease term is 60 years with an option to cancel after 30 years. The station leased a parcel of land to a regional corporation. In turn, the corporation agreed to build a broadcast tower and a transmitter building on the land and lease space on the tower and in the transmitter building to the station. No cash payments are exchanged between the parties. The two leases describing the agreement, the Tower Lease Agreement and the Ground Lease, run concurrently.

NOTE 4. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The station's operating expenses by functional and natural classification for the year ended June 30, 2007, are as follows:

Functional Classification	Natural Classification				Total
	Salaries	Benefits	Other Operating	Depreciation	
Programming & production	\$ 228,662	\$ 93,869	\$ 398,206	\$ -	\$ 720,737
Broadcasting	51,534	21,032	114,399	-	186,965
Program information & promotion	33,315	18,231	1,352	-	52,898
Management & general	163,806	53,749	64,723	-	282,278
Fund raising & membership development	29,813	13,203	56,602	-	99,618
Underwriting and grant solicitation	40,589	11,770	-	-	52,359
Depreciation	-	-	-	117,657	117,657
Total	\$ 547,719	\$ 211,854	\$ 635,282	\$ 117,657	\$ 1,512,512

The station's operating expenses by functional and natural classification for the year ended June 30, 2006, are as follows:

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Functional Classification	Natural Classification				Total
	Salaries	Benefits	Other Operating	Depreciation	
Programming & production	\$ 231,102	\$ 104,061	\$ 366,103	\$ -	\$ 701,266
Broadcasting	49,298	21,748	416,969	-	488,015
Program information & promotion	23,759	15,183	1,200	-	40,142
Management & general	153,603	54,120	41,916	-	249,639
Fund raising & membership development	63,173	19,279	84,121	-	166,573
Underwriting and grant solicitation	35,818	13,243	23,476	-	72,537
Depreciation	-	-	-	80,702	80,702
Total	\$ 556,753	\$ 227,634	\$ 933,785	\$ 80,702	\$ 1,798,874

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Equipment	\$ 705,554	\$ -	\$ (43,757)	\$ 661,797
Less: accumulated depreciation	(375,304)	(117,657)	35,314	(457,647)
Capital assets, net	<u>\$ 330,250</u>	<u>\$ (117,657)</u>	<u>\$ (8,443)</u>	<u>\$ 204,150</u>

Capital asset activity for the year ended June 30, 2006, was as follows:

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	Beginning Balance	Additions	Reductions	Ending Balance
Equipment	\$ 770,758	\$ 99,920	\$ (165,124)	\$ 705,554
Less: accumulated depreciation	(452,703)	(80,702)	158,101	(375,304)
Capital assets, net	<u>\$ 318,055</u>	<u>\$ 19,218</u>	<u>\$ (7,023)</u>	<u>\$ 330,250</u>

NOTE 6. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2007, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Compensated absences	\$64,605	\$47,259	\$50,335	\$61,529	\$50,335

Long-term liability activity for the year ended June 30, 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Compensated absences	\$61,038	\$46,591	\$43,024	\$64,605	\$43,024