

WSUI - AM And KSUI - FM The University Of Iowa

Combined Financial Report
06.30.2007

McGladrey & Pullen
Certified Public Accountants

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**WSUI – AM AND KSUI – FM
The University of Iowa**

**Management's Discussion And Analysis
Years Ended June 30, 2007 And 2006**

Introduction

This Management's Discussion and Analysis of the WSUI-AM and KSUI-FM (Stations) provides the reader with a narrative overview of the Stations' financial statements and activities for the years ended June 30, 2007 and 2006.

Using the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Stations' financial statements. The combined basic financial statements include two components: (1) the combined basic financial statements and (2) the Notes to Combined Basic Financial Statements.

The combined basic financial statements are designed to provide readers with a broad overview of the Stations' finances in a manner similar to a private-sector business. The financial statements use the accrual basis of accounting. The basic financial statements include a Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets and a Statement of Cash Flows. The financial statements are followed by Notes to Combined Basic Financial Statements.

The Statement of Net Assets presents useful information on all of the Stations' assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Stations are improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Assets reports the operating revenues and expenses and non-operating revenues and expenses of the Stations for the fiscal year with the difference being the change in net assets for the year.

Financial Highlights

During the year ended June 30, 2007, the Stations received grants from the Corporation for Public Broadcasting totaling approximately \$260,000. The Stations also recorded approximately \$539,000 of program underwriting during the year ended June 30, 2007, an increase of approximately \$109,000 over the year ended June 30, 2006. Nonoperating revenues for 2007, primarily investment income, increased by \$65,000 compared to the prior year.

During the year ended June 30, 2006, the Stations received grants from the Corporation for Public Broadcasting totaling approximately \$286,000. The Stations also recorded approximately \$430,000 of program underwriting during the year ended June 30, 2006, an increase of over \$200,000 from the year ended June 30, 2005.

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The Statements of Net Assets

The Stations' financial position as of June 30, 2007 consisted of assets of \$3,168,828 and liabilities of \$136,889. Net Assets, the difference between total assets and total liabilities, increased by approximately \$180,000 in 2007.

The Stations' financial position as of June 30, 2006 consisted of assets of \$2,991,339 and liabilities of \$139,649. Net Assets, the difference between total assets and total liabilities, increased by approximately \$159,000 in 2006.

The Stations' assets as of June 30, 2007 were approximately \$177,000 more than at June 30, 2006. The Stations' liabilities as of June 30, 2007 were approximately \$2,000 less than at June 30, 2006.

The Stations' assets as of June 30, 2006 were approximately \$168,000 more than at June 30, 2005. The Stations' liabilities as of June 30, 2006 were approximately \$54,000 more than at June 30, 2005. Summarized financial information is as follows:

	June 30,		
	2007	2006	2005
Assets:			
Current assets	\$ 908,543	\$ 862,922	\$ 714,146
Capital assets	1,050,532	1,040,634	1,089,367
Investments	1,209,753	1,087,784	1,019,887
Total assets	3,168,828	2,991,339	2,823,400
Liabilities:			
Current liabilities	136,889	139,649	86,094
Net Assets:			
Invested in capital assets, net of related debt	1,050,532	1,040,634	1,089,367
Restricted	543,604	552,932	518,830
Unrestricted	1,437,803	1,258,124	1,129,109
Total net assets	\$ 3,031,939	\$ 2,851,690	\$ 2,737,306
Increase in net assets	\$ 180,249	\$ 114,384	\$ 372,952

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Years Ended June 30, 2007 And 2006

Statements of Revenues, Expenses and Changes in Net Assets

The following table summarizes the Stations' revenues, expenses and changes in net assets for the years ended June 30, 2007, 2006 and 2005.

	Year Ended June 30,		
	2007	2006	2005
Operating revenues	\$ 2,305,160	\$ 2,175,678	\$ 1,976,308
Operating expenses	2,175,870	2,047,038	1,799,048
Operating income	129,290	128,640	177,260
Nonoperating revenues (expenses)	50,959	(14,256)	189,437
Transfers	-	-	6,255
Increase in net assets	\$ 180,249	\$ 114,384	\$ 372,952

For the year ended June 30, 2007, operating revenues totaled \$2,305,160, an increase of approximately \$151,000, or 7%, compared to the year ended June 30, 2006. Included in operating revenues are appropriations and facilities and administrative support from the University of Iowa and contributions in the form of program underwriting and memberships and fundraising campaigns. These revenues totaled \$1,991,833 for the year ended June 30, 2007, which represents 86% of total operating revenues for the year. In the prior year, these revenues were 83% of total operating revenue. There were no other significant or unexpected changes in operating revenues.

Net non-operating revenue totaled \$50,959 for the year ended June 30, 2007, compared to net non-operating expense of \$14,256 for the year ended June 30, 2006, an increase in net non-operating revenue of \$65,216. The increase in non-operating revenue was due primarily to an increase of approximately \$44,000 in the fair market value of investments in 2007 compared to 2006, as well as an increase in investment income of approximately \$17,000 compared to 2006. There were no other significant or unexpected changes in non-operating revenues.

For the year ended June 30, 2006, operating revenues totaled \$2,175,678, an increase of approximately \$199,000, or 10%, compared to the year ended June 30, 2005. Included in operating revenues are appropriations and facilities and administrative support from the University of Iowa and contributions in the form of program underwriting and memberships and fundraising campaigns. These revenues totaled \$1,814,416 for the year ended June 30, 2006, which represents 84% of total operating revenues for the year. In the prior year, these revenues were 86% of total operating revenue. There were no other significant or unexpected changes in operating revenues.

Net non-operating expenses totaled \$14,256 for the year ended June 30, 2006, compared to net non-operating revenue of \$189,437 for the year ended June 30, 2005, an increase in net non-operating expenses of \$203,694. The decrease in non-operating revenue was due primarily to the decrease in capital grants of \$127,727 received in the prior year, as well as a decrease of approximately \$9,000 in the fair market value of investments in 2006 compared to an increase of \$16,331 in 2005. There were no other significant or unexpected changes in non-operating revenues.

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No transfers of net assets occurred in the years ended June 30, 2007 and 2006, respectively.

Total revenues for the year ended June 30, 2007 were \$2,356,119, including operating revenue of \$2,305,160 and non-operating revenue of \$50,959. Total revenues for the year ended June 30, 2006 were \$2,205,900. Total revenues for the year ended June 30, 2005 were \$2,127,267.

Total expenses for the year ended June 30, 2007 were \$2,175,870, all of which were operating. Operating expenses increased \$151,292. Increases in compensation accounted for \$132,857 of the increase. Expenses for the year ended June 30, 2006 totaled \$2,047,038.

Total expenses for the year ended June 30, 2006 were \$2,047,038, all of which were operating. Operating expenses increased \$247,990. Increases in compensation, professional services, and programming costs accounted for \$249,251 of the increase. Expenses for the year ended June 30, 2005 totaled \$1,799,048.

Cash Flows

The Combined Statements of Cash Flows provides information regarding the Stations' cash receipts and disbursements during the fiscal year. This provides an assessment of the Stations' ability to generate future net cash flows and meet obligations as they come due.

The following table summarizes the Stations' cash flow for the years ended June 30, 2007, 2006 and 2005.

	2007	2006	2005
Cash Provided By (Used In):			
Operating Activities	\$ 226,070	\$ 241,739	\$ 284,488
Capital Financing Activities	(103,874)	22,996	(200,031)
Investing Activities	(215,984)	(144,772)	(249,292)
Net change in cash	(93,788)	119,963	(164,835)
Cash beginning of year	352,357	232,394	397,229
Cash end of year	\$ 258,569	\$ 352,357	\$ 232,394

Capital Assets

At June 30, 2007, the Stations had capital assets with a cost of \$1,884,979, with accumulated depreciation of \$834,447 for a net of \$1,050,532. Depreciation charges for the current year totaled \$93,976, compared to \$92,194 in the prior year.

Major capital additions during the year ended June 30, 2007 totaled \$103,874. In the year ended June 30, 2006, the capital additions totaled \$53,553 of purchased items.

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As of June 30, 2007, the cost of the Stations' capital assets included \$812,584 for the towers and transmission equipment and \$237,948 for all other assets.

The following table summarizes the Stations' capital assets, net of depreciation, as of June 30, 2007, 2006 and 2005.

	Capital Assets, Net of Depreciation		
	2007	2006	2005
Towers and transmission equipment	\$ 812,584	\$ 866,274	\$ 906,242
Other assets	237,948	174,360	183,125
Total capital assets, net	\$ 1,050,532	\$ 1,040,634	\$ 1,089,367

Debt Administration

As of June 30, 2007 and 2006, the Stations did not have any debt. The Stations do not have any debt limitations that may affect financing of future facilities or services, and there have not been any changes in credit ratings.

Economic Factors that May Affect the Future

In December 2004, the Board of Regents, State of Iowa (BOR) established Iowa Public Radio (IPR) to provide management of the public radio operations at Iowa State University (WOI Radio Group, the University of Iowa [WSUI/KSUI] and the University of Northern Iowa [KUNI/KHKE Radio Group]). The BOR also directed that an Executive Council be established and an Executive Director be hired. The goals of these decisions were to create a more efficient operation and to provide greater public service to Iowa. Since that time, IPR has been developing its organizational structure and the relationship that will exist between the university licensees and IPR. In May 2007, a Professional Services Operating Agreement (PSOA) was signed by IPR, BOR, and the presidents of Iowa State University, the University of Iowa and the University of Northern Iowa. The agreement formalizes the management and fund raising responsibilities assigned to IPR for the radio station groups. This agreement will result in fund raising funds for the radio stations being received primarily from IPR rather than directly from individual donors. The operational expenses of IPR will be recognized as in-kind contributions to the radio station groups. It is anticipated that this transition will take at least two years to accomplish. During that time any deficit in fund raising efforts will be covered by withdrawals of reserve funds from the stations. It is projected that in fiscal year ending June 30, 2008 there will be a total deficit of \$250,000 or \$83,333 per station group.

IPR was incorporated as Iowa Public Radio, Inc in February 2006 and received 501 (c) 3 status from the Internal Revenue Service in August 2007.

The PSOA ensures that the licenses and assets of the radio stations will remain the property of the respective universities. Each station will continue to develop and present individual audited financial statements. Primary changes will be the source of revenue and changes in net assets. All future funds not needed for operating activities will remain the possession of IPR. Therefore, any growth in cash balances and investments will be reported on IPR's annual audited financial statements.

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report On The Combined Financial Statements

WSUI – AM and KSUI – FM
The University of Iowa
Iowa City, Iowa

We have audited the accompanying combined basic financial statements of WSUI-AM and KSUI-FM (Stations), National Public Radio Stations operated by and a department of The University of Iowa, as of and for the years ended June 30, 2007 and 2006 as listed in the table of contents. These financial statements are the responsibility of the Stations' management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the Departments of WSUI-AM and KSUI-FM are intended to present the financial position and the changes in financial position and cash flows of only that portion of the business type activities of The University of Iowa that is attributable to the transactions of the Departments of WSUI-AM and KSUI-FM. They do not purport to, and do not, present fairly the financial position of The University of Iowa as of June 30, 2007 and 2006, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 12, the 2006 financial statements have been restated to correct the accounting for underwriting receivables.

In our opinion, the combined basic financial statements referred to above present fairly, in all material respects, the financial position of the Stations as of June 30, 2007 and 2006, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 18, 2007, on our consideration of the Stations' 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 considered in assessing the results of our audit.

The Management's Discussion and Analysis, on pages 1 – 5, is not a required part of the combined basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion thereon.

The accompanying supplementary information, on pages 22 – 23 is presented for purposes of additional analysis and is not a required part of the combined basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the combined basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

McGladrey & Pullen, LLP

Iowa City, Iowa
December 18, 2007

WSUI - AM And KSUI - FM
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Combined Statements Of Net Assets
June 30, 2007 And 2006

Assets	2007	2006
Current Assets		
Cash and cash equivalents (Note 2)	\$ 258,569	\$ 352,357
Pledges receivable	40,036	60,224
Underwriting receivables, less allowance for doubtful accounts 2007 and 2006 \$7,500	85,194	64,772
Investments held by The University of Iowa Foundation (Note 2)	476,623	331,650
Inventory of fundraising supplies	2,481	3,064
Prepaid expenses	45,640	50,855
Total current assets	908,543	862,922
Noncurrent Assets		
Capital assets, equipment, net (Note 11)	1,050,532	1,040,634
Investments held by The University of Iowa Foundation (Note 2)	1,197,855	1,076,982
Investments held by The University of Iowa long-term endowment pool (Note 2)	11,898	10,802
Total noncurrent assets	2,260,285	2,128,417
Total assets	\$ 3,168,828	\$ 2,991,339
Liabilities And Net Assets		
Current Liabilities		
Accounts payable (Note 6)	\$ 40,642	\$ 39,783
Accrued compensation	87,944	67,393
Unearned grant revenue (Note 4)	-	32,473
Unearned underwriting revenue	8,303	-
Total current liabilities	136,889	139,649
Net assets		
Invested in capital assets, net of related debt	1,050,532	1,040,634
Restricted (Note 1)	543,604	552,932
Unrestricted (Note 12)	1,437,803	1,258,124
Total net assets	3,031,939	2,851,690
Total liabilities and net assets	\$ 3,168,828	\$ 2,991,339

See Notes to Combined Basic Financial Statements.

WSUI - AM And KSUI - FM
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Combined Statements Of Revenues, Expenses
And Changes In Net Assets
Year Ended June 30, 2007 And 2006

	2007	2006
Operating revenues:		
University of Iowa appropriations	\$ 648,460	\$ 627,454
Community service grants (Note 3)	260,055	286,124
Memberships and fundraising campaigns	525,447	528,763
Program underwriting (Note 12)	539,438	430,421
Institutional, physical plant and occupancy support provided by The University of Iowa (Note 9)	256,028	227,778
Special fundraising events	-	47,562
Other grants	69,453	20,640
Java Blend compact disc sales	6,279	6,936
Total operating revenues	2,305,160	2,175,678
Operating expenses:		
Programming and production	909,583	951,868
Engineering and broadcasting	259,944	247,656
Program information	89,492	133,689
General and administrative	678,155	499,873
Fundraising	238,696	213,952
Total operating expenses	2,175,870	2,047,038
Operating income	129,290	128,640
Nonoperating revenues (expenses):		
Investment income:		
Interest and dividends	72,226	54,794
Net appreciation (depreciation) in fair value of investments	35,231	(9,332)
Investment management fees	(56,498)	(50,464)
(Loss) on disposal of assets	-	(9,254)
Total nonoperating revenues (expenses)	50,959	(14,256)
Increase in net assets	180,249	114,384
Net assets, beginning as restated (Note 12)	2,851,690	2,737,306
Net assets, ending	\$ 3,031,939	\$ 2,851,690

See Notes to Combined Basic Financial Statements.

WSUI - AM And KSUI - FM
The University Of Iowa

Combined Statements Of Cash Flows
Years Ended June 30, 2007 And 2006

	2007	2006
Cash Flows from Operating Activities		
University of Iowa appropriations	\$ 648,460	\$ 627,454
Cash received from grants and other operating revenue	303,312	336,174
Cash received from fundraising and underwriting activities	1,072,954	975,244
Cash payments to employees for services	(1,007,259)	(892,350)
Cash payments to suppliers for goods and services	(487,469)	(524,844)
Other operating cash payments	(303,928)	(279,939)
Net cash provided by operating activities	226,070	241,739
Cash Flows from Capital Financing Activities		
Acquisition of capital assets	(103,874)	(53,553)
Cash received from capital grants	-	76,549
Net cash (used in) provided by capital financing activities	(103,874)	22,996
Cash Flows from Investing Activities		
Cash received from investment income	15,728	4,330
Purchase of investments	(231,712)	(149,102)
Net cash (used in) investing activities	(215,984)	(144,772)
Net (decrease) increase in cash and cash equivalents	(93,788)	119,963
Cash and cash equivalents:		
Beginning	352,357	232,394
Ending	\$ 258,569	\$ 352,357
Reconciliation of Net Cash Provided By Operating Activities:		
Operating income	\$ 129,290	\$ 128,640
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	93,976	92,194
Changes in operating assets and liabilities:		
Pledges and underwriting receivable	(234)	(24,004)
Inventory	583	(963)
Prepaid expenses	5,215	(7,685)
Accounts payable and accrued expenses	21,410	31,082
Unearned underwriting revenue	8,303	-
Deferred grant revenue	(32,473)	22,474
Net cash provided by operating activities	\$ 226,070	\$ 241,739
Noncash transactions:		
Indirect support provided by The University of Iowa	\$ 256,028	\$ 227,778
Loss on disposal of assets	-	9,254

See Notes to Combined Basic Financial Statements.

Notes To Combined Basic Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies

Reporting entity: WSUI-AM and KSUI-FM (Stations) are not discrete legal entities and are part of The University of Iowa (University). The Board of Regents of the State of Iowa is the governing board and the President and Director of University Relations of the University are responsible for the oversight of the Stations. The University owns all the assets of the Stations, including facilities and all employees of the Stations are employees of the University.

Basis of presentation: The financial statements of the Stations are prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the *Governmental Accounting Standards Board* (GASB). The Stations apply all applicable GASB pronouncements as well as those of the Financial Accounting Standards Board, Accounting Principles Board and Accounting Research Bulletins that are appropriate for accounting for the Stations' operations. The Stations previously adopted provisions of GASB Statement No. 34 (Statement 34) *Basic Financial Statements and Managements Discussion and Analysis for State and Local Governments*. Statement 34 established standards for external financial reporting for all state and local governmental entities and component units. These standards prescribe a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows prepared on the direct method. It requires the classification of net assets into three components: invested in capital assets, net of related debt; restricted; and unrestricted.

Nature of activities: The Stations are affiliate stations of National Public Radio. As part of the University, they are exempt from federal and state income taxes. WSUI broadcasts news and talk programs. KSUI broadcasts news and classical music.

Accounting system and method: The accounting system and personnel of the University provide accounting services for the Stations. The financial accounting system is prepared using the accrual basis of accounting, which is in accordance with accounting principles generally accepted in the United States of America.

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

A summary of the Stations' significant accounting policies follows:

Principles of combination: The combined financial statements include the accounts of the Stations. All balances and transactions between the Stations have been eliminated in combination.

Cash and cash equivalents: For purposes of the statement of cash flows, cash and cash equivalents represent certain unrestricted cash accounts of The University of Iowa held for the Stations.

Capital assets: Capital assets are recorded at cost or estimated fair value on the date received, and depreciation is computed using the straight-line method over the estimated useful lives of the assets.

Notes To Combined Basic Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Donated facilities and administrative support: The Stations receive the use of facilities and administrative support from the University. The value of the donated facilities is computed using the valuation method currently advocated by the Corporation for Public Broadcasting and is based on the original cost of the facilities. Administrative support is based on the Stations' operating expenses compared to the University's administrative costs. Physical plant support is based on the square footage of the Stations. The fair value of this support is recognized in the Statements of Revenues, Expenses and Changes in Net Assets as indirect administrative support and also as expense in the general and administrative functional expense category.

Investments held by the University of Iowa Foundation: Investments held by the University of Iowa Foundation on behalf of the Stations are invested in money market funds and mutual funds. Money market funds are stated at net asset value and mutual funds are stated at fair value. The change in fair value of investments is reflected as revenue.

Prepaid expenses: Prepayments for program series and other syndicated products are stated at amortized cost and are included in prepaid expenses. The cost of the programs is amortized by the straight-line method over the period of the license agreement.

Pledges and contributions: The Stations encourage individuals, businesses and other organizations to provide underwriting support for specific and general programming. The Stations, with the assistance of The University of Iowa Foundation, engage in periodic fundraising campaigns using on-air and mail fundraising appeals. A portion of the contributions is made by pledges. Contributions, including unconditional pledges, are recognized in the period received or given, net of an allowance for uncollectible pledges, if appropriate. Contributions are classified as operating revenues unless restricted. Provision for doubtful pledges totaled \$10,000 and none during the period ended June 30, 2007 and 2006, respectively.

Underwriting receivables: Underwriting receivables are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts. Management determines the allowance for doubtful accounts by identifying past due accounts and by using historical experience applied to an aging of accounts. Underwriting receivables are written off when deemed uncollectible. Recoveries of trade receivables previously written off are recorded when received. The provision for doubtful accounts totaled none and \$7,500 for the years ended June 30, 2007 and 2006, respectively.

Notes To Combined Basic Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Net assets: In the Statement of Net Assets, there are three net asset categories:

- *Invested in capital assets, net of related debt.* This component reports the difference between capital assets, less accumulated depreciation and the outstanding balance of debt, if any, that was related to the acquisition of the capital assets.
- *Restricted net assets.* This component of net assets reports the constraints placed on the use of net assets by external parties as follows:

	June 30,	
	2007	2006
Classical music programming	\$ 234,043	\$ 211,407
KSUI programming	11,898	10,802
News programming	14,522	13,118
Scholarships	23,086	31,481
Unexpended Community Service Grants	260,055	286,124
Total restricted net assets	\$ 543,604	\$ 552,932

- *Unrestricted net assets.* The difference between assets and liabilities that is not reported in the above categories.

In-kind contributions: Contributed materials, supplies, facilities and property, which normally are not significant, are recorded at fair value at the date of donation. The fair value of contributed materials, supplies, facilities and property and exchanges of promotional materials and advertising is not recorded if they cannot be reasonably determined. Donated personal services of nonprofessional volunteers are not recorded as revenue and expenses.

Revenue recognition: University support, including compensation of the Stations' personnel, is recorded as revenue when expenditures are incurred. Grants and University support to finance capital assets are recognized when the expenditures are incurred. Grants to finance non capital projects are recorded as deferred revenue until expenditure is incurred for which the grant was intended. The amounts are then included in revenues when the expenditures are recorded.

Program underwriting support: Underwriting support is treated as conditional contributions, and recognized when the conditions are met based on the terms of the underwriting agreements, and are recognized primarily on a pro rata basis as the underwriters are acknowledged.

Corporation for Public Broadcasting Community Service Grants: The Corporation for Public Broadcasting (CPB) is a private, nonprofit grant-making organization responsible for funding more than 1,000 television and radio stations. CPB distributes annual Community Service Grants (CSGs) to qualifying public broadcasting entities. CSGs are used to augment the financial resources of public broadcasting entities and thereby enhance the quality of programming and expand the scope of public broadcasting services. Each CSG may be expended over one or two federal fiscal years as described in the Communications Act, 47 United States Code Annotated Section 396(k)(7). In any event, each grant must be expended within two years of the initial grant authorization.

Notes To Combined Basic Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

According to the Communications Act, funds may be used at the discretion of recipients for purposes relating primarily to production and acquisition of programming. Also, the grants may be used to sustain activities begun with CSGs awarded in prior years.

Certain *General Provisions* must be satisfied in connection with application for and use of the grants to maintain eligibility and meet compliance requirements. These *General Provisions* pertain to the use of grant funds, record keeping, audits, financial reporting, mailing lists and licensee status with the Federal Communications Commission.

The CSGs are recorded as contributions when the Stations receive the grants, and the unexpended portions are included in restricted net assets.

Operating activities: Operating activities generally result from the provision of public broadcasting and from the production of program material for distribution. Revenues associated with, or restricted by donors for use for capital improvements, and revenues and expenses that result from financing and investing activities are recorded as non-operating revenues.

Functional allocation of expenses: The cost of providing program services and other activities are summarized on a functional basis in the statement of revenues, expenses and changes in net assets and in the schedule of functional expenses. Accordingly, certain costs have been allocated between the program and supporting services on the basis of benefits received.

Notes To Combined Basic Financial Statements

Note 2. Cash, Cash Equivalents and Investments

The University of Iowa Foundation (Foundation) and The University of Iowa hold the Stations' investments. The investments are held by the University or Foundation or its agents and are uninsured and unregistered securities not in the Stations' name. The Foundation and the University have various investment pools that the Stations can choose from. The Stations' investment policy is to invest the majority of Friends of WSUI/KSUI account in the short-maturity pool, which consists of 100% low risk, fixed income instruments, and to invest the balance in the long-term pool, a higher risk, higher return portfolio which consists of 80% domestic equities and 20% fixed income instruments. Funds in the account are available to the Stations upon demand and the portion of the account estimated for use in the next year is classified as a current asset. The composition of the investments as of June 30, 2007 and 2006 is as follows:

	June 30,	
	2007	2006
Investment type:		
Money market	\$ 145,977	\$ 23,348
Short-maturity pool	1,256,850	1,150,278
Long-term pool	283,549	245,808
Total investments	<u>\$ 1,686,376</u>	<u>\$ 1,419,434</u>

The Stations' cash and cash equivalents and investments are subject to the following 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 Stations' cash is held by the University and is non interest bearing; therefore, the interest rate risk is minimized.

Credit risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The University of Iowa Foundation and the University of Iowa Endowment manage credit risk by diversification to multiple counterparties.

Concentration of credit risk: Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. As of June 30, 2007, the Stations' cash and cash equivalents were highly concentrated in the University's cash accounts and the investments were concentrated in the Foundation's investments.

Custodial credit risk: Custodial credit risk is the risk that in the event of failure of a depository financial institution, the Stations may not be able to recover deposits or collateral securities. As of June 30, 2007, the carrying amount of deposits with the University totaled \$258,569. The cash accounts of the University are FDIC insured or covered by the State of Iowa sinking fund. The Station's investments held by the Foundation are held by a number of custodians.

Notes To Combined Basic Financial Statements

Note 3. Community Service Grants

Community Service Grants (CSG) are received annually from the Corporation for Public Broadcasting. The CSGs received and expended for the most recent fiscal years are as follows:

Year of Grant	Grants Received	Expended		Unexpended Balance at June 30, 2007
		2007	2006	
2007	\$ 260,055	\$ -	\$ -	\$ 260,055
2006	286,124	286,124	-	-
2005	257,794	-	257,794	-

Note 4. Deferred Grant Revenue

Deferred grant revenue as of June 30, 2007 and 2006 was as follows:

	2007	2006
Unexpended Savin Foundation grant for FM production room console	\$ -	\$ 15,136
University of Iowa matching grant for Savin Foundation	-	15,137
Unexpended portion of CPB Internet Services acquisition grant	-	2,200
	<u>\$ -</u>	<u>\$ 32,473</u>

Note 5. Employee Benefit Plans

All of the Stations' personnel are employees of the University and have entitlements to University fringe benefit programs. The University uses a fringe benefit pool method to allocate expenses to university departments, and to pay fringe benefits. Under this method, the Stations are charge a percentage of compensation for each employee based on one of the twelve University defined employee groups. The University maintains and pays all applicable benefits and the obligation for compensated absences. The fringe benefit rate for the Stations for the years ended June 30, 2007 and 2006 was 34.3% and 32.7%, respectively, including the contribution to the retirement program discussed following.

The University contributes to the Teachers Insurance and Annuity Association (TIAA) retirement program, which is a defined contribution plan. The defined contribution retirement plan provides individual annuities for each plan participant. All eligible University employees must participate in a retirement plan from the date they are employed. Contributions made by both employer and employee vest immediately. As specified by the contract with TIAA, each employee through the fifth year of employment contributes 3 1/3% of the first \$4,800 of earnings and 5% on the balance of earnings. The University, through the fifth year of employment, is required to contribute 6 2/3% of the first \$4,800 of earnings and 10% on earnings above the \$4,800. Upon completion of five years of service, the participant contributes 5% and the University 10% on all earnings.

University employees may elect to participate in the Iowa Public Employees' Retirement System (IPERS) in lieu of contributing to the TIAA retirement program. IPERS is a defined benefit plan which requires an employee to contribute 3.9% of total earnings and the University to contribute 6.05% of total earnings, regardless of years of service.

Notes To Combined Basic Financial Statements

Note 6. Transactions with Iowa Public Radio

In December 2004, the Board of Regents of the State of Iowa authorized the creation of Iowa Public Radio (IPR) to eventually manage the radio stations of the three Regents universities. Iowa Public Radio has subsequently been incorporated as a not-for-profit organization and is governed by an Executive Council, including a representative from the University of Iowa.

In May 2007, the Board of Regents, State of Iowa, Iowa State University (licensee of the WOI Radio Group radio stations), the University of Iowa (licensee of KSUI/WSUI), the University of Northern Iowa (licensee of the KUNI radio stations) and Iowa Public Radio (IPR) approved an agreement which designated that IPR will provide administrative and fund raising services for the radio stations, beginning in fiscal 2008. In July 2007, IPR began providing coordinated fund raising for the three broadcast organizations and distributing funds to the stations. Each broadcast organization will continue to provide its own financial reports consistent with current reporting information requirements. In addition, the three station groups and IPR will develop a common chart of accounts and standard accounting structure to facilitate common accounting reports.

The management agreement discussed above contemplates a minimum staff size at IPR in order to control costs. It is not anticipated that WSUI/KSUI staff currently employed by the University of Iowa will be reassigned as employees of IPR. Joan Kjaer, WSUI/KSUI Station Manager, is the only University of Iowa employee also employed by IPR. Ms. Kjaer holds the title of Deputy Director of Iowa Public Radio at IPR, and her IPR compensation will be paid by the Stations.

Management fee expense to Iowa Public Radio totaled \$127,469 and \$119,563 for the years ended June 30, 2007 and 2006, respectively, including an assessment of \$100,000 to the Stations for management fees for the years ended June 30, 2007 and 2006. Accounts payable included \$27,469 and \$19,563 to Iowa Public Radio as of June 30, 2007 and 2006, respectively.

For the year ending June 30, 2008, the IPR management agreement will eliminate the fundraising campaign results to the Stations and the management fee expense to IPR will be reduced to \$83,000. The Stations will receive distributions from IPR's campaign in amounts to be determined.

Note 7. Lease Commitments

The Iowa Public Broadcasting Board leases real estate in Cedar County and has erected a tower on the real estate for the purpose of broadcasting Iowa Public Television programming. On July 1, 2003, the University entered into an agreement with the Iowa Public Broadcasting Board whereby the Stations leased space on the tower to affix a radio transmission antenna. The lease is for a ten-year period with annual lease payments of \$17,200, with total lease commitments as of June 30, 2007 totaling \$103,200.

Rent expense for the towers totaled \$17,200 for each of the years ended June 30, 2007 and 2006. Additionally, the Stations must pay their share of utility costs on a quarterly basis in arrears. Utility costs associated with the tower lease were \$16,197 and \$16,145 in the years ended June 30, 2007 and 2006, respectively.

Notes To Combined Financial Statements

Note 8. Nonfederal Financial Support

The Corporation for Public Broadcasting (CPB) allocates a portion of its funds annually to public broadcasting entities, primarily based on nonfederal financial support (NFFS). NFFS is defined as the total value of cash and the fair market value of property and services received as either a contribution or a payment and meeting all of the respective criteria for each.

A "contribution" is cash, property or services given to a public broadcasting entity for general operation purposes. Support received as a contribution by public broadcasting entity must meet the following criteria to be includable as NFFS: (1) the source may be an entity except the federal government or any other public broadcasting entity; (2) the contribution may take the form of a gift, grant, bequest, donation or appropriation; (3) the purpose must be for the construction or operation of a noncommercial, educational public broadcast station or for the production, acquisition, distribution or dissemination of educational television or radio program and related activities; and (4) the recipient must be a public broadcasting entity on behalf of a public broadcast station. However, to eliminate distortions in the television CSG grant program precipitated by extraordinary infusions of new capital investments in direct television, all capital contributions received for purposes of acquiring new equipment or upgrading existing or building new facilities regardless of source or form of the contribution are not included in calculating the 2007 NFFS. This change excludes all revenues received for any capital purchases.

The "payment" is cash, property or services received by a public broadcasting entity from specific sources in exchange for specific services or materials. Support received as a payment by a public broadcasting entity must meet the following criteria to be includable as NFFS: (1) the source must be a state, any agency or political subdivision of a state, an educational institution or organization or a nonprofit entity; (2) the form of the payment must be appropriations or contract payments in exchange for specific services or materials; (3) the purpose must be for any related activity of the public broadcasting station; and (4) the recipient must be a public broadcasting entity on behalf of a public broadcasting station.

Note 9. Transactions with the University of Iowa

Indirect support from the University consists of allocated institutional support, physical plant and office and studio occupancy costs incurred by the University for which the Stations receive benefits. The fair value of this support is recognized in the Statements of Activities as indirect administrative support and also as expense in the management and general functional expense category. The value of this support was \$256,028 and \$227,778 for the years ended June 30, 2007 and 2006, respectively.

Program underwriting from various departments of the University of Iowa totaled \$47,694 and \$39,483 during the periods ended June 30, 2007 and 2006, respectively. The Stations recorded deferred underwriting revenue of \$3,828 as of June 30, 2007 and underwriting accounts receivable of \$464 as of June 30, 2006 related to underwriting transactions with the University of Iowa.

Note 10. Risk Management

The Stations are exposed to various risks of loss related to property loss, liability under tort, theft, damage to or the destruction of assets, errors and omissions, injuries to employees and natural disasters. These risks are subject to the same insurance coverage as the University which includes catastrophic property insurance, self-insured liability losses and limited motor vehicle liability coverage. Settled claims from these risks have not exceeded coverage in any of the past three fiscal years.

Notes To Combined Basic Financial Statements

Note 11. Capital Assets

A summary of property and equipment as of and for the years ended June 30, 2007 and 2006 is as follows:

	June 30, 2006	Additions	Reductions	June 30, 2007
Towers and transmission equipment	\$ 1,397,584	\$ -	\$ -	\$ 1,397,584
Broadcast and production equipment	200,260	102,121	-	302,381
Office furniture and equipment	137,276	1,753	-	139,029
Software	45,985	-	-	45,985
Total	1,781,105	103,874	-	1,884,979
Less accumulated depreciation:				
Towers and transmission equipment	531,310	53,690	-	585,000
Broadcast and production equipment	114,532	17,976	-	132,508
Office furniture and equipment	60,865	17,422	-	78,287
Software	33,764	4,888	-	38,652
Total	740,471	93,976	-	834,447
Property and equipment, net	\$ 1,040,634	\$ 9,898	\$ -	\$ 1,050,532
	June 30, 2005	Additions	Reductions	June 30, 2006
Towers and transmission equipment	\$ 1,397,389	\$ 17,811	\$ 17,616	\$ 1,397,584
Broadcast and production equipment	206,161	16,643	22,544	200,260
Office furniture and equipment	127,799	19,099	9,622	137,276
Software	52,800	-	6,815	45,985
Total	1,784,149	53,553	56,597	1,781,105
Less accumulated depreciation:				
Towers and transmission equipment	491,147	54,220	14,057	531,310
Broadcast and production equipment	120,296	11,084	16,848	114,532
Office furniture and equipment	50,429	19,221	8,785	60,865
Software	32,910	7,669	6,815	33,764
Total	694,782	92,194	46,505	740,471
Property and equipment, net	\$ 1,089,367	\$ (38,641)	\$ 10,092	\$ 1,040,634

Notes To Combined Basic Financial Statements

Note 12. Prior Period Adjustment

The financial statements as of and for the year ended June 30, 2006 have been retroactively restated to reflect a correction related to underwriting agreements. The correction arose from the accounting system's ability to properly recognize and record receivables from underwriting agreements as of June 30, 2006 and 2005.

The effects of the restatement are as follows:

	As Previously Reported	Correction	As Restated
As of June 30, 2005:			
Underwriting receivable	\$ -	\$ 44,478	\$ 44,478
Net assets, unrestricted	1,084,631	44,478	1,129,109
As of June 30, 2006:			
Underwriting receivable, net of allowance for doubtful pledges \$7,500	\$ -	\$ 64,772	\$ 64,772
Net assets, unrestricted	1,193,352	64,772	1,258,124
Year ended June 30, 2006:			
Program underwriting	\$ 402,627	\$ 27,794	\$ 430,421
Fundraising expenses	206,452	7,500	213,952
Increase in net assets	94,090	20,294	114,384

Note 13. New Accounting Pronouncements

The following recently issued accounting standards are not expected to have any effect on the Stations' financial statements.

GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, issued April 2004, establishes uniform financial reporting standards for other postemployment benefit plans (OPEB plans) and supersedes existing guidance.

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postretirement Benefits Other Than Pensions*, issued June 2004, establishes standards for the measurement, recognition and display of other postemployment benefits expenses and related liabilities or assets, note disclosures and, if applicable, required supplementary information in the financial reports.

GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, issued September 2006, establishes accounting and financial reporting standards for transactions in which a government receives, or is entitled to, recourses in exchange for future cash flows generated by collecting specific receivables or specific future revenues. It also provides disclosure requirements for a government that pledges or commits future cash flows from a specific revenue source. In addition, this Statement establishes accounting and financial reporting standards for intra-entity transfers of assets and future revenues.

Notes To Combined Basic Financial Statements

Note 13. New Accounting Pronouncements (Continued)

GASB Statement No. 49, *Accounting for Financial Reporting for Pollution Remediation Obligations*, issued November 2006, addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities, such as site assessments and cleanups. This Standard requires the government to estimate the components of expected pollution remediation outlays and determine whether the outlays for those components should be accrued as a liability, or if appropriate, capitalized when goods and services are acquired.

GASB Statement No. 50, *Pension Disclosures – an amendment of GASB Statement Nos. 25 and 27*, issued May 2007, more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in notes to the financial statements or presented as required supplementary information by pension plans and by employers that provide pension benefits.

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, issued June 2007, will be effective for the Stations beginning with its year ending June 30, 2011. This Statement provides guidance regarding how to identify, account for, and report intangible assets. The new standard characterizes an intangible asset as an asset that lacks physical substance, is non-financial in nature, and has an initial useful life extending beyond a single reporting period. The Stations have not determined what effect, if any, this Statement may have on future financial statements.

WSUI - AM And KSUI - FM
The University Of Iowa

Functional Expenses
Year Ended June 30, 2007

	Program Services			Supporting Services			
	Programming and Production	Engineering and Broadcasting	Program Information	Total Program Services	General and Administrative	Fundraising	Total Functional Expenses
Compensation	\$ 571,533	\$ 116,806	\$ -	\$ 688,339	\$ 180,488	\$ 158,982	\$ 1,027,809
Travel	3,348	5,901	2,127	11,376	10,138	9,415	30,929
Office and other supplies	9,371	20,534	17,145	47,050	11,551	432	59,033
Management fee to Iowa Public Radio	-	-	-	-	138,469	-	138,469
Professional services	3,691	385	20,926	25,002	32,164	2,696	59,862
Printing	-	-	12,554	12,554	6,782	79	19,415
Postage	6	11	11,339	11,356	9,536	51	20,943
Repair and maintenance	970	6,232	-	7,202	3,892	4,236	15,330
Utilities	-	17,075	-	17,075	176	-	17,251
Programming costs	302,688	34,422	2,002	339,112	4,757	1,430	345,299
Advertising	-	-	23,399	23,399	6,752	5,074	35,225
Institutional, physical plant and occupancy	-	-	-	-	256,028	-	256,028
Depreciation	17,976	58,578	-	76,554	17,422	-	93,976
Fundraising administrative fee	-	-	-	-	-	46,301	46,301
Provision for doubtful accounts	-	-	-	-	-	10,000	10,000
Miscellaneous	-	-	-	-	-	-	-
	<u>\$ 909,583</u>	<u>\$ 259,944</u>	<u>\$ 89,492</u>	<u>\$ 1,259,019</u>	<u>\$ 678,155</u>	<u>\$ 238,696</u>	<u>\$ 2,175,870</u>

WSUI - AM and KSUI - FM
The University Of Iowa

Functional Expenses
Year Ended June 30, 2006

	Program Services			Supporting Services			Total Functional Expenses
	Programming and Production	Engineering and Broadcasting	Program Information	Total Program Services	General and Administrative	Fundraising	
Compensation	\$ 610,265	\$ 101,814	\$ 2,824	\$ 714,903	\$ 75,432	\$ 104,617	\$ 894,952
Travel	3,013	8,099	2,447	13,559	16,141	9,649	39,349
Office and other supplies	7,591	9,370	18,604	35,565	6,493	3,411	45,469
Management fee to Iowa Public Radio	-	-	-	-	119,563	-	119,563
Professional services	11,121	15,726	34,343	61,190	23,877	-	85,067
Printing	-	-	9,688	9,688	1,530	15,273	26,491
Postage	47	-	8,227	8,274	3,063	11,135	22,472
Repair and maintenance	848	2,647	-	3,495	187	-	3,682
Utilities	3,872	12,289	-	16,161	-	-	16,161
Programming costs	303,852	31,970	5,569	341,391	3,795	2,197	347,383
Advertising	175	3,852	27,135	31,162	2,793	20,648	54,603
Institutional, physical plant and occupancy	-	-	-	-	227,778	-	227,778
Depreciation	11,084	61,889	-	72,973	19,221	-	92,194
Fundraising administrative fee	-	-	-	-	-	39,522	39,522
Provision for doubtful accounts	-	-	-	-	-	7,500	7,500
Miscellaneous	-	-	24,852	24,852	-	-	24,852
	<u>\$ 951,868</u>	<u>\$ 247,656</u>	<u>\$ 133,689</u>	<u>\$ 1,333,213</u>	<u>\$ 499,873</u>	<u>\$ 213,952</u>	<u>\$ 2,047,038</u>

**Independent Auditor's Report On Internal Control Over
Financial Reporting And On Compliance And Other Matters
Based On An Audit Of Combined Financial Statements
Performed In Accordance With Government Auditing Standards**

WSUI - AM and KSUI - FM
The University of Iowa
Iowa City, Iowa

We have audited the combined basic financial statements of WSUI - AM and KSUI - FM, National Public Radio Stations operated by and a department of The University of Iowa, as of and for the year ended June 30, 2007, and have issued our report thereon, dated December 18, 2007. 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.

Internal Control Over Financial Reporting

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Station's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Station's financial statements that is more than inconsequential will not be prevented or detected by the Station's internal control. We consider the deficiency 2007-1 described in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be presented or detected by the Station's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We believe that the significant deficiency described above is a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether WSUI - AM and KSUI - FM's combined financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Station's Management and the Office of the Auditor of State, State of Iowa and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey & Pullen, LLP

Iowa City, Iowa
December 18, 2007

WSUI-AM and KSUI-FM

Finding 2007-1

Criteria or specific requirement

An internal control deficiency exists if an entity cannot record, process and report financial data to prepare financial statements reliability in accordance with generally accepted accounting principles.

Condition

The Stations were unable to identify and record receivables from program underwriters as of June 30, 2005, 2006, and 2007 and to record underwriting support in accordance with the accrual method of accounting.

Context

The Stations use separate, stand-alone software to record program underwriting and to create a subsidiary ledger of underwriting that has been billed to supporters, but not collected. The Station did not realize that a feature of the software creates the subsidiary ledger, and that the uncollected balance of the receivables should be recorded in the Stations' general ledger. Previously underwriting was recognized as collected and the effects of unrecorded receivables became material to the financial statements.

Effect

The Stations' underwriting receivables and underwriting support was misstated as of June 30, 2006 and 2005, and for the year ended June 30, 2006. The receivables were recorded as of June 30, 2007, 2006 and 2005, and the financial statements for the year ended June 30, 2006 were retroactively restated for the correction of an error.

Cause

The Stations do not have a general ledger system that integrates the underwriting subsidiary ledger, and does not employ accounting personnel who are able to recognize all the accrual basis adjustments that might be needed to prepare financial statements.

Recommendation

The Stations should obtain assistance from qualified outside sources when matters arise that might effect the financial statements.