



KUED-TV
(A Public Telecommunications Department of the University of Utah)

Financial Statements

June 30, 2008

(With Independent Auditors' Report Thereon)

KUED-TV
(A Public Telecommunications Department of the University of Utah)

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KPMG LLP
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Independent Auditors' Report

KUED-TV
The University of Utah Board of Trustees
and
Michael K. Young, President:

We have audited the accompanying statement of net assets of KUED-TV (a public telecommunications department of the University of Utah) as of June 30, 2008, 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 KUED-TV's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 KUED-TV'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 KUED-TV, 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, 2008, and the changes in its financial position or 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 KUED-TV as of June 30, 2008, 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 19, 2008, on our consideration of KUED-TV'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 KUED-TV, but is supplementary information required by the Governmental Accounting Standards Board. 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 19, 2008

KUED-TV

(A Public Telecommunications Department of the University of Utah)

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

INTRODUCTION

The following discussion and analysis provides an overview of the financial position and activities of KUED-TV (the Station) as of and for the year ended June 30, 2008, with selected comparative information as of and for the year ended June 30, 2007. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto.

The Station is licensed to the University of Utah and is the only public television station in Utah that broadcasts the full Public Broadcasting Service (PBS) schedule. The Station has a significant commitment to local-interest television productions and community outreach and broadcasts an instructional television block from 9:00 a.m. to 2:00 p.m. every weekday. The Station's Media Solutions department helps educators and community leaders blend technologies to teach and inform. The Media Solutions department develops Web sites and produces educational materials in a variety of formats such as video, DVD, and CD-Rom. During fiscal year 2008, the Media Solutions department provided a broad range of products and services to address institutional and educational needs.

The Station is currently broadcasting a digital signal to the greater Salt Lake City, Utah metropolitan area, along with Richfield and St. George, Utah.

FINANCIAL HIGHLIGHTS

The Station's financial position at June 30, 2008 includes assets of \$16,068,598 and total liabilities of \$1,234,416. Net assets, which represent the residual interest in the Station's assets after liabilities are deducted, increased by \$1,054,197 to \$14,834,182 at June 30, 2008.

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, 2008 and 2007 as follows:

	<u>2008</u>	<u>2007</u>
Total revenues	\$14,813,920	\$14,792,817
Total expenses	<u>13,759,723</u>	<u>13,734,341</u>
Increase in net assets	<u>\$ 1,054,197</u>	<u>\$ 1,058,476</u>

Revenues increased \$21,103 in fiscal year 2008 primarily due to increases of \$1,397,950 in direct support from the State of Utah, \$50,249 in underwriting, and \$312,795 in sales and service. These increases were offset with a decrease of \$353,295 in direct support from the University of Utah, \$209,962 in contributions, \$193,960 in federal grants, \$62,041 in other, and \$917,787 in net decreases in the fair value of investments. Expenses, as described using functional classifications, increased by \$25,382 primarily due to an increase of \$175,314 in program information expenses. This increase was mainly offset by a decrease of \$147,085 in broadcasting expenses.

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.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

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. Assets and liabilities are generally measured using current values, except for capital assets, which are stated at historical cost less an allowance for depreciation.

A summarized comparison of the Station's assets, liabilities, and net assets at June 30, 2008 and 2007 follows:

	<u>2008</u>	<u>2007</u>
Current assets	\$ 7,474,509	\$ 6,188,210
Noncurrent assets	8,594,089	8,754,620
Total assets	16,068,598	14,942,830
Current liabilities	1,234,416	1,162,845
Net assets	<u>\$14,834,182</u>	<u>\$13,779,985</u>

A review of the Station's Statement of Net Assets at June 30, 2008 and 2007 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, costs incurred for programs not yet broadcast, investments, and prepaid expenses. Total current assets increased \$1,286,299 during fiscal year 2008. The increase was due primarily to an increase in unrestricted and restricted cash with the University of Utah of \$1,083,270, an increase in restricted and unrestricted receivables of \$288,269, and an increase in prepaid expenses of \$189,277. These increases were offset by decreases in costs incurred for programs not yet broadcast of \$158,058 and in investments of \$116,459.

Noncurrent assets consist of cash, restricted investments, investments in joint venture, and capital assets. Total noncurrent assets decreased by \$160,531 during fiscal year 2008. The decrease was due primarily to an increase in capital assets of \$121,820 offset with decreases of \$236,877 in restricted investments and \$45,474 in investment in joint venture.

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. *Restricted nonexpendable net assets* are those funds received from donors with the stipulation that the principal remain inviolate and be invested in perpetuity to produce income that is to be expended for purposes specified by the donor. 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, production, outreach, and broadcasting projects to be used during fiscal year 2009.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

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, 2008 and 2007 follows:

	<u>2008</u>	<u>2007</u>
Operating revenues	\$ 417,576	\$ 104,781
Operating expenses	13,759,723	13,734,341
Operating loss	(13,342,147)	(13,629,560)
Nonoperating revenues	14,396,344	14,646,223
Income before additions to capital assets and permanent endowments	1,054,197	1,016,663
Capital assets received as donations		33,935
Additions to permanent endowments		7,878
Increase in net assets	1,054,197	1,058,476
Net assets – beginning of year	13,779,985	12,721,509
Net assets – end of year	<u>\$ 14,834,182</u>	<u>\$ 13,779,985</u>

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

The Station's revenues were \$21,103 higher in fiscal year 2008 than in fiscal year 2007 primarily due to an increase of \$1,397,950 in direct support from the State of Utah. The State awarded the Station \$1,282,350 in digital conversion funds in fiscal year 2008. Underwriting revenue increased by \$50,249 primarily due to greater support from corporations and foundations. Support from KUEN increased by \$12,948. Sales and Service revenue increased by \$312,795 primarily due to a Reading First state grant awarded to KUED Media Solutions. Interest income increased by \$34,244 primarily due to a larger amount of cash-on-hand earning interest. These increases were offset with a decrease of \$353,295 in direct support from the University of Utah primarily due to lower University website project funding given to KUED Media Solutions. Contributions decreased by \$209,962 primarily due to membership fund drives being less successful during the fiscal year. Federal grants decreased by \$193,960 primarily due to less grant revenue from NTIA/PTFP. Other revenue decreased by \$62,041. The net change in the fair value of investments changed from a gain of \$555,538 to a loss of \$362,249 for an overall change of \$917,787. Additions to permanent endowments and additions to capital assets decreased by \$41,813 because there were no donations during the fiscal year. The Station continues its involvement in a capital campaign to raise money from individuals, foundations, and corporations for the digital conversion.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

A comparative summary of the Station's operating expenses by functional classification for the years ended June 30, 2008 and 2007 follows:

	<u>2008</u>	<u>2007</u>
Program services		
Programming and production	\$ 7,266,755	\$ 7,273,720
Broadcasting	2,287,233	2,434,318
Program information	1,424,944	1,249,630
Total program services	<u>10,978,932</u>	<u>10,957,668</u>
Support services		
Fundraising and development	1,963,350	1,969,750
Management and general	817,441	806,923
Total support services	<u>2,780,791</u>	<u>2,776,673</u>
Total expenses	<u>\$13,759,723</u>	<u>\$13,734,341</u>

The Station's expenses increased by \$25,382 in fiscal year 2008. Program information expenses increased by \$175,314 primarily due to more money being spent on personnel, community outreach, promotion of our Spanish language digital channel, V-me, and branding. Management and general expenses increased by \$10,518. These increases were offset with a decrease of \$6,965 programming and production expenses, and a decrease of \$147,085 in broadcast expenses primarily due to less money being spent on the digital conversion. Fundraising and development expenses decreased \$6,400.

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 by \$1,083,270 in fiscal year 2008 primarily due to an increase in net cash provided by noncapital financing activities, a decrease in cash used by operating activities, and a decrease in purchases of capital assets. These increases were offset by a decrease in net cash provided by investing activities. The Station's significant sources of cash provided by operating activities and noncapital financing activities include state appropriations, funding from the University of Utah, federal grants, grants from the CPB, and private gifts.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

CURRENT FACTORS HAVING PROBABLE FUTURE FINANCIAL SIGNIFICANCE

The Station has significant financial challenges in the next fiscal year and for the next decade. In the Telecommunications Act of 1996, the Federal Communications Commission (FCC) mandated that public television stations transition to digital (DTV) operations by May 2003 and retain analog operations at least until May 2006. In the fall of 2000, PBS projected the total cost of digital transition for all public TV and radio stations nationwide to be approximately \$1.8 billion. The Station has met this mandate and is broadcasting DTV services in the greater Salt Lake City, Utah metro area. The Station was also able to install digital transmitters in the Richfield and St. George areas of Utah. The shut-off date for analog operations is still mandated to be February 17, 2009. The Station is taking steps to make certain that over-the-air viewers are informed of the analog shut-off date and have either a television equipped with a digital tuner or a digital-to-analog set-top box converter so they will still receive the Station's broadcast signal after February 17, 2009. The Station stands to lose revenue from individual donors if the over-the-air viewers cannot receive its digital signals.

The Station faces two more major milestones in the digital conversion. The Station needs to expand DTV services statewide to rural communities and schools. This will require a substantial amount of material and labor costs, as Utah has the most extensive rural broadcast translator system in the United States (about 10% of the total FCC-licensed rural translators). These analog translators need to be converted to digital. The Station received \$1.3 million from the State of Utah in fiscal year 2008 to assist with the conversion of the translators to digital. The Station also needs to complete the conversion of its in-house production equipment to digital equipment. The Station has completed Phase I of the digital transition at a cost of \$5.2 million. Phases II and III are estimated to cost an additional \$8.8 million to complete the digital transition over the next decade.

Anticipating the projected flat budgets within the State of Utah, the Station plans to obtain grant funding from federal government programs, state and county governments, and private and local sources to assist with the conversion and expansion of the analog translator network to digital technology. The Station will do the same for the conversion of its in-house production equipment to digital. The Station is still involved in a five-year capital campaign to raise \$6 million in private funding.

Another challenge to the Station is declining television viewership. Competition for television audience continues to increase, and networks (including PBS) will probably never have the audience size of 10 or even 5 years ago. While the total number of people watching television has remained stable, the number of television choices has reduced the number of viewers watching the networks, including PBS. Plus, in Utah, the Station has one of the lowest numbers of households using television of any market in the United States. The Station will continue to produce and broadcast high-quality commercial-free programs that educate, enlighten, and entertain. Community outreach projects and the annual Speaking of Women's Health conference will continue to add visibility to the Station and will attract more viewers. The new media environment requires that the Station explore new platforms and methods to reach viewers. Some new ways to provide content is by video-on-demand, web streaming, and podcasting.

Public television stations across the country have seen a decline in the number of donors who renew their memberships over the past few years. The Station is working with consultants to increase both the number of donors and the amount of donations in its Major Donor and Planned Giving programs as well as at its basic membership level.

The Station will continue to be prudent in its long-term planning. While it is not possible to predict the ultimate results, management will be aggressive in meeting these economic uncertainties to maintain its favorable financial position.

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STATEMENT OF NET ASSETS

As of June 30

	2008	[For Comparison Only] 2007
ASSETS		
Current assets		
Cash	\$ 4,001,873	\$ 3,028,477
Restricted cash	234,140	124,266
Receivables, net (Note 2)	679,025	491,140
Restricted receivables (Note 2)	584,845	484,461
Costs incurred for programs not yet broadcast	166,942	325,000
Investments (Note 4)	1,589,797	1,706,256
Prepaid expenses	153,172	28,610
Restricted prepaid expenses	64,715	
Total current assets	<u>7,474,509</u>	<u>6,188,210</u>
Noncurrent assets		
Restricted investments (Note 4)	2,994,677	3,231,554
Investments in joint venture (Note 4)	711,713	757,187
Capital assets, net (Note 3)	4,887,699	4,765,879
Total noncurrent assets	<u>8,594,089</u>	<u>8,754,620</u>
Total assets	<u>16,068,598</u>	<u>14,942,830</u>
LIABILITIES		
Current liabilities		
Accounts payable	482,905	433,807
Accrued personnel services	751,511	729,038
Total current liabilities	<u>1,234,416</u>	<u>1,162,845</u>
NET ASSETS		
Invested in capital assets	4,887,699	4,765,879
Restricted – expendable	883,700	608,727
Restricted – nonexpendable	2,994,677	3,231,554
Unrestricted	6,068,106	5,173,825
Total net assets	<u>\$14,834,182</u>	<u>\$13,779,985</u>

See accompanying notes to financial statements

KUED-TV

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STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Years ended June 30

	2008	[For Comparison Only] 2007
OPERATING REVENUES		
Sales and services	\$ 417,576	\$ 104,781
Total operating revenues	<u>417,576</u>	<u>104,781</u>
OPERATING EXPENSES		
Broadcasting	2,287,233	2,434,318
Programming and production	7,266,755	7,273,720
Program information	1,424,944	1,249,630
Management and general	817,441	806,923
Fundraising and membership development	1,963,350	1,969,750
Total operating expenses	<u>13,759,723</u>	<u>13,734,341</u>
Operating loss	<u>(13,342,147)</u>	<u>(13,629,560)</u>
NONOPERATING REVENUES (EXPENSES)		
State of Utah appropriations	3,948,350	2,550,400
Direct support from the University of Utah	2,095,656	2,448,951
Indirect support from the University of Utah	1,266,047	1,275,401
Indirect in-kind support from governmental entities	256,438	255,309
Support from KUEN TV	12,948	
Federal grants	1,939,648	2,133,608
Contributions	3,359,891	3,569,853
Underwriting	1,536,226	1,485,977
Investment income (loss) (Note 4)	(132,726)	750,817
Other	113,866	175,907
Total nonoperating revenues	<u>14,396,344</u>	<u>14,646,223</u>
Income before additions to capital assets and permanent endowments	<u>1,054,197</u>	<u>1,016,663</u>
Additions to capital assets		33,935
Additions to permanent endowments		<u>7,878</u>
Total capital assets and permanent endowments revenue	<u>0</u>	<u>41,813</u>
Increase in net assets	<u>1,054,197</u>	<u>1,058,476</u>
NET ASSETS		
Net assets – beginning of year	<u>13,779,985</u>	<u>12,721,509</u>
Net assets – end of year	<u><u>\$ 14,834,182</u></u>	<u><u>\$ 13,779,985</u></u>

See accompanying notes to financial statements

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STATEMENT OF CASH FLOWS

Years ended June 30

	<u>2008</u>	<u>[For Comparison Only] 2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from sales and services	\$ 400,003	\$ 147,551
Cash payments for salaries, wages, and benefits	(6,150,748)	(6,190,217)
Cash payments for other operating expenses	(4,824,117)	(4,750,763)
Net cash used by operating activities	<u>(10,574,862)</u>	<u>(10,793,429)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash received from the University of Utah	2,203,233	2,322,511
Cash received from other grants	364,490	516,500
Cash received from Corporation from Public Broadcasting	1,544,508	1,571,480
Cash received from State of Utah appropriations	3,948,350	2,550,400
Cash received from contributions	3,351,162	3,560,643
Cash received from underwriting	981,083	1,258,203
Cash received from other income	71,936	161,339
Additions to permanent endowments		9,433
Net cash provided by noncapital financing activities	<u>12,464,762</u>	<u>11,950,509</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Proceeds from sale of capital assets	4,450	
Purchases of capital assets	(957,038)	(1,373,413)
Support from KUEN	12,948	
Net cash used by capital financing activity	<u>(939,640)</u>	<u>(1,373,413)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in joint venture	(87,600)	(92,150)
Purchases of investments	(8,913)	(12,060)
Proceeds from sale of investments		100,000
Cash received from interest income	229,523	231,161
Net cash provided by investing activities	<u>133,010</u>	<u>226,951</u>
Net increase in cash	1,083,270	10,618
Cash, beginning of year	3,152,743	3,142,125
Cash, end of year	<u>\$ 4,236,013</u>	<u>\$ 3,152,743</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	\$(13,342,147)	\$(13,629,560)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation expense	821,042	754,841
Loss on disposal of fixed assets	9,726	4,833
Loss in joint venture	133,074	129,399
In-kind donations	258,179	224,096
Indirect support from University of Utah	1,266,047	1,275,401
Indirect in-kind support from governmental entities	256,438	255,309
Change in assets and liabilities:		
Prepaid expenses	(189,277)	(26,590)
Receivables related to operating revenue	(17,573)	42,770
Cost of programs not yet broadcast	158,058	(10,928)
Accounts payable and accruals	71,571	187,000
Net cash used by operating activities	<u>\$(10,574,862)</u>	<u>\$(10,793,429)</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Donated equipment		33,935

See accompanying notes to financial statements

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NOTES TO FINANCIAL STATEMENTS

June 30, 2008

(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 conforms to U.S. generally accepted accounting principles.

(a) Organization

KUED-TV (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 an affiliated television station, KUEN-TV, and an affiliated radio station, KUER-FM Radio. Certain Station personnel share their time among the Station, KUEN-TV, and KUER-FM Radio.

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 their 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.

(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*.

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.
- **State of Utah appropriations** – State of Utah appropriations represent direct support from the State of Utah as appropriated by the Utah State Legislature. These funds support Station personnel, programming and production, broadcasting, program information, installation and transmission, and educational service and training. These revenues are recognized upon being legally effective, which is the first day of the State of Utah's fiscal year, July 1.
- **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 expense at estimated fair value at the time such costs are incurred.

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June 30, 2008

- **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 expense at estimated fair value at the time such costs are incurred. Administrative support consists of allocated costs of financial and accounting services, development services, and certain other expenses incurred by the University on behalf of the Station.
- **Indirect in-kind support from governmental entities** – Indirect in-kind support from governmental entities represents services provided by governmental entities, including instructional TV programming 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 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 in 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 used to purchase national and locally produced programming. Pledges are recognized as revenue when a pledge is made by a donor.
- **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.

(c) ***Program Rights***

Program rights purchased by the Station are expensed upon the initial program broadcast, due to the uncertainty of any future program broadcasts. The financial statements at June 30, 2008 and 2007 do not include any deferred costs related to program rights.

(d) ***Costs Incurred for Programs Not Yet Broadcast***

Costs incurred for programs not yet broadcast relate to programs produced by the Station that will be initially broadcast subsequent to June 30, 2008. Concurrent with initial broadcasting of the programs, their costs will be reported as operating expenses.

(e) ***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. Statement No. 31 requires that certain investments be reported at fair value and that investment income include 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.

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(f) **Capital Assets**

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

Building	30 years
Transmitter	15 years
Broadcast equipment	5 to 10 years

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

The Station presents its share of depreciation on the building based on a 30 year useful life for the purposes of these financial statements. In applying for various federal funding opportunities, the Station utilizes the University's negotiated facilities and administrative rate which includes depreciation determined per the University's stated policy. University policy, as described in the University's Financial Report and Cost Accounting Standards Disclosure Statement (DS-2), provides a 40 year useful life on buildings and additions. Depreciation, as reflected in these statements, is not included in requests for federal funding. If the Station were to use a 40 year useful life, consistent with the University's Financial Report, depreciation expense would be approximately \$28,040 lower than is shown in the Statement of Revenues, Expenses, and Changes in Net Assets.

(g) **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.

(h) **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.

(i) **Restricted Resources**

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

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(2) Accounts Receivable

Accounts receivable at June 30, 2008 and 2007 consist of the following:

	2008	[For Comparison Only] 2007
Underwriting	\$ 597,789	\$ 284,267
Federal grants – restricted	420,528	365,786
Corporation for Public Broadcasting – restricted	65,829	90,172
Contributions	153,235	117,220
Other	33,486	164,460
Other – restricted	98,488	28,503
	<u>1,369,355</u>	<u>1,050,408</u>
Less allowances for doubtful accounts	<u>(105,485)</u>	<u>(74,807)</u>
Receivables, net	<u><u>\$1,263,870</u></u>	<u><u>\$ 975,601</u></u>

(3) Capital Assets

Capital assets at June 30, 2008 consist of the following:

	Beginning balance	Additions	Retirements	Ending balance
Land	\$ 200,000			\$ 200,000
Transmitter	954,728			954,728
Broadcast equipment	8,537,228	\$957,038	\$1,827,534	7,666,732
Building	4,692,363			4,692,363
Total	<u>14,384,319</u>	<u>957,038</u>	<u>1,827,534</u>	<u>13,513,823</u>
Less accumulated depreciation				
Transmitter	535,663	41,709		577,372
Broadcast equipment	6,841,963	623,725	1,813,358	5,652,330
Building	2,240,814	155,608		2,396,422
Total accumulated depreciation	<u>9,618,440</u>	<u>821,042</u>	<u>1,813,358</u>	<u>8,626,124</u>
Capital assets, net	<u><u>\$ 4,765,879</u></u>	<u><u>\$135,996</u></u>	<u><u>\$ 14,176</u></u>	<u><u>\$ 4,887,699</u></u>

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(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.

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 loss of \$362,249 for the year ended June 30, 2008.

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.

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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.

The Station's participation in the University's endowment pool expose 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.



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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.

The market value of the Station's interest in the University's endowment pool has declined subsequent to June 30, 2008 reflecting turmoil in the global financial markets.

The Station has an investment in DTV Utah, LC, a joint venture with seven other Wasatch front stations. The Station has a 13% interest in DTV Utah, LC at June 30, 2008. DTV Utah, LC was formed to design, construct, and operate a facility to transmit high-definition television signals of the participating members as mandated by the Federal Communications Commission. The facility was completed during fiscal year 2000. The Station's ongoing financial responsibility is to fund its share of operating and maintenance costs. The loss in the joint venture of \$133,094, which is included in broadcasting expenses in the Statement of Revenues, Expenses, and Changes in Net Assets, represents the Station's equity interest in the net loss of DTV Utah, LC for the year ended June 30, 2008. The net loss comprised mainly of depreciation and other operating expenses. Financial statements for the joint venture are the responsibility of and are available from KSL-TV, one of the joint venture participants.

(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 Systems (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.

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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, Fidelity, and Vanguard provide individual retirement fund contracts with each participating employee. 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, 2008, 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, 2008, 2007, and 2006, the Station's contributions to the Systems and TIAA-CREF were equal to the required amounts as follows: \$647,720, \$634,264, and \$575,158, respectively.

(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, as well as hospital and physicians' malpractice liability self-insurance funds, 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, 2008 totaled \$13,664 for land on which the Station transmitter is located. The rental payments under the lease are approximately \$14,200 per year expiring in July 2012, with a renewal option for an additional 10 years.