

KUNI-FM/KHKE-FM RADIO

A Public Telecommunications Entity
Operated by the University of Northern Iowa

Financial Statements

June 30, 2008 and 2007

KUNI-FM/KHKE-FM Radio
A Public Telecommunications Entity
Operated by the University of Northern Iowa
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INDEPENDENT AUDITOR'S REPORT

KUNI-FM/KHKE-FM Radio
University of Northern Iowa

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We have audited the accompanying statements of net assets of **KUNI-FM/KHKE-FM Radio** (the Station), a public telecommunications entity operated by the University of Northern Iowa, as of June 30, 2008 and 2007, and the related statements of revenue, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Station's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Friends of KHKE/KUNI, Inc., an included entity, which statements reflect total assets and revenues constituting 58 percent and 5 percent, respectively, of the related totals. Those statements were audited by another auditor whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Friends of KHKE/KUNI, Inc., is based solely on the report of the other auditor.

We conducted our audits 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. The financial statements of Friends of KHKE/KUNI, Inc. were not audited in accordance with *Government Auditing Standards*. 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 and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of **KUNI-FM/KHKE-FM Radio** as of June 30, 2008 and 2007, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 6 is not a required part of the financial statements 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 the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our reports dated October 27, 2008 on our consideration of **KUNI-FM/KHKE-FM Radio's** internal control and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. Those reports are an integral part of the audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The other supplementary information in schedule 1 is presented for purposes of additional analysis and is not a required part of the financial statements of **KUNI-FM/KHKE-FM Radio**. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Corwin, Reichter & Company, P.C.

Clive, Iowa
October 27, 2008

KUNI-FM/KHKE-FM RADIO
A Public Telecommunications Entity
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Management's Discussion and Analysis
June 30, 2008 and 2007 (Unaudited)

Introduction and Reporting Entity

This section of the KUNI/KHKE comprehensive annual financial report presents management's discussion and analysis of the financial performance of KUNI/KHKE public radio for the year ending June 30, 2008. This discussion should be read in conjunction with the accompanying letter of transmittal, financial statements and footnotes. The financial statements, footnotes and this discussion are the responsibility of KUNI/KHKE management.

This information is presented to assist the reader in understanding KUNI/KHKE's financial position and operating activities, accomplishments and challenges. KUNI/KHKE operates under the auspices of the University of Northern Iowa which holds the station's FCC broadcast licenses and through a Public Service Operating Agreement (PSOA) with the Board of Regents, State of Iowa.

KUNI/KHKE's assets from member contributions prior to the formation of Iowa Public Radio (IPR) are held by the Friends of KUNI/KHKE. Member contributions for the year ending June 30, 2008 are held by IPR and distributed back to the IPR stations. The Friends are an independent, non-profit corporation whose purpose is to provide financial support for the stations. The Friends' financial and investment activities are monitored by the University of Northern Iowa and also through a separate, annual independent audit.

Financial Highlights

The University of Northern Iowa continues to provide financial support for KUNI/KHKE through a budgeted appropriation. This money is used for non-management staff salaries and benefits.

2008 completes the first year of operation under a Public Service Operating Agreement (PSOA) which defines the financial and operational relationship between the public radio stations of the University of Northern Iowa, University of Iowa and Iowa State University, their respective universities and the Board of Regents (BOR). The PSOA mandates an independent Board of Directors established by the BOR with an Executive Director and a senior management team. The Director and the team manage all facets of the stations' broadcasting and fundraising operations under the entity of Iowa Public Radio (IPR).

Prior to the PSOA, each station handled its own operational, financial and fundraising activities. With the creation of IPR, the stations unified these activities managed by the Executive Director and senior team. Some budget activities are still divided between the individual stations and IPR.

The Corporation for Public Broadcasting (CPB) issues annual funding to qualified public radio stations through its Community Service Grant (CSG) program. Stations that serve significant numbers of rural listeners receive additional annual funding. During the year 2007, CPB announced new rules that ended KUNI's rural award from this program. Also, for several reasons, CPB will have fewer dollars to distribute in future years to all stations in the CSG program. For KUNI/KHKE, the loss is \$48,992 for the year ended June 30, 2008.

In 2008, the State of Iowa awarded IPR 2 million dollars in funding for new infrastructure and equipment replacement. KUNI/KHKE's share of this grant is approximately \$650,000. In addition to general equipment, this grant will be used to match awarded grants from the Public Telecommunications Facilities Program (PTFP) and the Federal Emergency Management Agency (FEMA) to replace the KRNI back-up transmitter which was destroyed in the June 2008 flood.

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Financial Highlights, Continued

In the summer of 2008, the University of Northern Iowa received construction permits for a new repeater station in Mason City and two new translators serving West Des Moines. The construction costs will vary from \$50,000 to \$350,000 with part of the cost expected to be covered by external funding.

Using the Financial Statements

The Radio Station's financial statements present the Radio Station and its component units. The Friends of KHKE/KUNI, Inc. (Friends) is a fundraising organization which solicits funds, and invests those funds, to be used to support the Radio Station. Its financial results are included in these financial statements to give a more complete picture of the Radio Station's finances.

The financial statements of the Radio Station consist of the Statements of Net Assets, the Statements of Revenues, Expenses and Changes in Net Assets and the Statements of Cash Flows. These financial statements provide information about the activities of the Radio Station and present a longer-term view of the Radio Station's finances. These financial statements also include the Notes to Financial Statements, which explain some of the information in the statements and provide more detail. Schedule 1 provides additional information on how the Radio Station's funds were spent.

These financial statements present financial information in a format similar to that used by businesses. They are prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide services to the Radio Station, regardless of when cash is exchanged.

The Statement of Net Assets presents the assets and liabilities of the Radio Station as of the end of the fiscal year. The purpose of this statement is to present a fiscal snapshot of the Radio Station to the readers of the financial statements. It includes year-end information concerning current and noncurrent assets, current and noncurrent liabilities, and net assets (assets less liabilities). The statement shows the reader how much is owed to outside vendors, and shows the amount of assets that can be used to pay those liabilities. Over time, an increase or decrease in net assets is one indicator of the improvement or erosion of the Radio Station's financial health.

The Statement of Revenues, Expenses and Changes in Net Assets presents the revenues earned and expenses incurred during the years reported. Activities are reported as either operating or non-operating, with the total net change in these activities reflecting the change in net assets. Because investment income, rental income, and certain grants are considered non-operating revenues, the Radio Station generally reports an operating loss.

The Statement of Cash Flows presents information related to cash inflows and outflows summarized by operating, non-capital financing, capital and related financing activities, and investing activities. It is an important tool to assist users to assess the Radio Station's ability to generate future cash flows, and its ability to meet its obligations as they come due.

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The Radio Station as a Whole

The Radio Station's financial position, as a whole, improved by about \$251,000 compared to the previous year.

The Statement of Net Assets

	<u>2008</u>	<u>2007</u>
Current assets	\$ 3,014,296	3,333,815
Capital assets	<u>971,995</u>	<u>346,983</u>
Total assets	<u>3,986,291</u>	<u>3,680,798</u>
Current liabilities	<u>274,528</u>	<u>249,903</u>
Total liabilities	<u>274,528</u>	<u>249,903</u>
Net assets:		
Invested in capital assets, net of related debt	971,995	346,983
Restricted	235,523	224,814
Unrestricted	<u>2,504,245</u>	<u>2,839,814</u>
Total net assets	<u>\$ 3,711,763</u>	<u>3,430,895</u>

The largest portion of the Radio Station's net assets (67.5 percent) is in unrestricted net assets (primarily composed of cash and investments) that can be used to meet the Radio Station's obligations as they come due. The restricted portion of the net assets (6.3 percent) includes resources subject to external restrictions of when or on what those funds can be spent. The invested in capital assets, net of related debt (26.2 percent of the net assets) consists of broadcasting equipment used in operations. The Radio Station does not have any debt related to the capital assets.

The net assets increased by \$82,117 (2.5 percent) from 2006 to 2007 and by \$280,868 (8.2 percent) from 2007 to 2008. The major changes in 2008 came from the invested in capital assets, which increased by \$625,012 while unrestricted net assets decreased \$335,569.

The Statement of Cash Flows

	<u>2008</u>	<u>2007</u>
Cash provided (used) by:		
Operating activities	\$ (496,112)	(194,063)
Capital and related financing activities	46,462	(73,102)
Investing activities	<u>368,749</u>	<u>309,146</u>
Net increase (decrease) in cash	(80,901)	41,981
Cash at beginning of year	<u>714,810</u>	<u>672,829</u>
Cash at end of year	<u>\$ 633,909</u>	<u>714,810</u>

The largest sources (uses) of cash from operations are: Support from the University of Northern Iowa \$661,338; Support from Iowa Public Radio \$514,366; Gifts and underwriting \$201,566; Cash paid to employees (\$978,337); Cash paid to vendors (\$1,032,054). The stations received capital grants and capital support from the university totaling \$740,636, with which they purchased equipment of \$694,174.

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**The Statement of Revenues, Expenses, and
Changes in Net Assets**

	<u>2008</u>	<u>2007</u>
Operating revenue:		
University of Northern Iowa appropriations	\$ 661,338	645,346
Donated facilities and administrative support	408,502	349,768
Support from Iowa Public Radio	514,366	-
Memberships, fundraising and special events	87,654	551,353
Community service grants	169,393	252,038
Grants from state agencies	1,700	-
Program underwriting	<u>199,529</u>	<u>206,783</u>
Total operating revenue	<u>2,042,482</u>	<u>2,005,288</u>
Operating expenses:		
Programming and production	1,067,980	1,027,793
Broadcasting	546,346	390,962
Program information	140,806	118,628
Management and general	559,795	550,809
Fundraising	<u>204,891</u>	<u>159,273</u>
Total operating expenses	<u>2,519,818</u>	<u>2,247,465</u>
Operating loss	<u>(477,336)</u>	<u>(242,177)</u>
Nonoperating revenues (expenses):		
Rental income	53,698	53,719
Investment income (loss)	(36,130)	257,710
University of Northern Iowa appropriations	617,619	-
Other grants	<u>123,017</u>	<u>39,785</u>
Net nonoperating revenues	<u>758,204</u>	<u>351,214</u>
Increase in net assets	280,868	109,037
Net assets, beginning of year	<u>3,430,895</u>	<u>3,321,828</u>
Net assets, end of year	<u>\$ 3,711,763</u>	<u>3,430,895</u>

The Radio Station's operating revenue comes primarily from three sources. The University of Northern Iowa appropriations and donated support totals \$1,687,459 (60.2 percent) for 2008 and \$995,114 (49.6 percent) for 2007. Memberships, fundraising and special events generated \$87,654 and \$551,353 of operating support in 2008 and 2007, a decrease of \$463,699. This decrease, the result of switching the fundraising activities to IPR, was offset by support from IPR of \$514,366 in 2008. Community service grants provided by the Corporation for Public Broadcasting continue to decrease as a source of operating revenue, decreasing from \$252,038 in 2007 to \$169,393 in 2008. Program underwriting revenues remained about the same at \$199,529 for 2008 compared to \$206,783 in 2007.

Operating expenses totaled \$2,519,818 in 2008 and \$2,247,465 in 2007. The largest increase came from services, \$229,257.

Non-operating revenues include funds used to rebuild and replace towers and transmission lines lost in storms, including \$617,619 appropriated by the university.

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Economic Factors That May Affect The Future

As KUNI/KHKE has merged into Iowa Public Radio, the stations have spent additional money creating a statewide network service. This money has come from funds held by the Friends of KUNI/KHKE. These expenditures should stabilize in the next five years with a projected remaining cash reserve of \$1.75 million.

The University of Northern Iowa remains committed to a high quality public radio service but relies on the legislature and tuition revenue. Should the University face a shortfall in funding, it will reduce spending on non-core programs, which includes public radio. Additionally, the Corporation for Public Broadcasting biannually reviews its grants to radio and television. CPB revenues for KUNI/KHKE have declined during the last two years and that is likely to continue in future years.

Request for Information

This financial report is designed to provide donors, members, and the Friends organization with a general overview of KUNI-FM/KHKE-FM Radio's finances and to account for the funding it receives. Additional details can be requested by mail at the following address:

KUNI-FM/KHKE-FM Radio
Communication Arts Center
University of Northern Iowa
Cedar Falls, IA 50614-0359

KUNI-FM/KHKE-FM RADIO
A Public Telecommunications Entity
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Statements of Net Assets
June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<u>Assets</u>		
Current assets:		
Cash	\$ 633,909	714,810
Certificates of deposit	311,641	1,144,476
Investments	1,832,776	1,340,851
Interest receivable	2,284	8,138
Accounts receivable, net of allowance for doubtful accounts of \$2,500 (2007; \$2,500)	26,216	28,253
Due from affiliated organizations	147,787	-
Grants receivable	1,700	-
Pledges receivable, net of allowance for uncollectible pledges of \$0 (2007; \$39,996)	-	27,749
Inventory	1,688	4,214
Prepaid expenses	<u>56,295</u>	<u>65,324</u>
Total current assets	<u>3,014,296</u>	<u>3,333,815</u>
Broadcasting equipment	1,786,530	1,149,777
Less: accumulated depreciation	<u>814,535</u>	<u>802,794</u>
Broadcasting equipment, net	<u>971,995</u>	<u>346,983</u>
Total assets	<u>\$ 3,986,291</u>	<u>3,680,798</u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	\$ 32,054	45,903
Advance payments on underwriting agreements	24,474	-
Compensated absences payable	<u>218,000</u>	<u>204,000</u>
Total current liabilities	<u>274,528</u>	<u>249,903</u>
Net Assets:		
Investment in capital assets, net of related debt	971,995	346,983
Restricted	235,523	244,098
Unrestricted	<u>2,504,245</u>	<u>2,839,814</u>
Total net assets	<u>3,711,763</u>	<u>3,430,895</u>
Total liabilities and net assets	<u>\$ 3,986,291</u>	<u>3,680,798</u>

See accompanying notes to financial statements.

KUNI-FM/KHKE-FM RADIO
A Public Telecommunications Entity
Operated by the University of Northern Iowa
Statements of Revenue, Expenses, and Changes in Net Assets
Years ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Operating revenues:		
University of Northern Iowa:		
General appropriation	\$ 661,338	645,346
Facilities and administrative support	408,502	349,768
Support from Iowa Public Radio	514,366	-
Community service grants	169,393	252,038
Program underwriting	199,529	206,783
Grants from state agencies	1,700	-
Contributed support from memberships and fundraising	37,758	526,895
Special events and other	<u>49,896</u>	<u>24,458</u>
Total operating revenues	<u>2,042,482</u>	<u>2,005,288</u>
Operating expenses:		
Programming and production	1,067,980	1,027,793
Broadcasting	546,346	390,962
Program information	140,806	118,628
Management and general	559,795	550,809
Fund raising	<u>204,891</u>	<u>159,273</u>
Total operating expenses	<u>2,519,818</u>	<u>2,247,465</u>
Operating income (loss)	<u>(477,336)</u>	<u>(242,177)</u>
Nonoperating revenues (expenses):		
Rental income	53,698	53,719
Investment income (loss)	(36,130)	257,710
University of Northern Iowa appropriations for equipment	617,619	-
Other grants	<u>123,017</u>	<u>39,785</u>
Net nonoperating revenues (expenses)	<u>758,204</u>	<u>351,214</u>
Increase (decrease) in net assets	280,868	109,037
Net assets, beginning of year	<u>3,430,895</u>	<u>3,321,858</u>
Net assets, end of year	\$ <u>3,711,763</u>	<u>3,430,895</u>

See accompanying notes to financial statements.

KUNI-FM/KHKE-FM RADIO
A Public Telecommunications Entity
Operated by the University of Northern Iowa
Statements of Cash Flows
Years ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Grants and contracts	\$ 169,393	252,038
Support from the University of Northern Iowa	661,338	645,346
Support from Iowa Public Radio	514,366	-
Gifts and underwriting	201,566	186,414
Contributions	(82,280)	529,491
Other	49,896	24,458
Cash paid to employees	(978,337)	(1,029,654)
Cash paid to suppliers	<u>(1,032,054)</u>	<u>(802,156)</u>
Net cash provided (used) by operating activities	<u>(496,112)</u>	<u>(194,063)</u>
Cash flows from capital and related financing activities:		
Capital grants	123,017	39,785
Capital support from the University of Northern Iowa	617,619	-
Purchases of broadcasting equipment	<u>(694,174)</u>	<u>(112,887)</u>
Net cash provided (used) by capital and related financing activities	<u>46,462</u>	<u>(73,102)</u>
Cash flows from investing activities:		
Subcarrier rental	53,698	53,719
Sales of investments and certificates of deposit	1,271,803	379,325
Investment income received	94,588	106,991
Purchases of investments and certificates of deposit	(977,272)	(198,099)
Investment income reinvested	<u>(74,068)</u>	<u>(32,790)</u>
Net cash provided (used) by investing activities	<u>368,749</u>	<u>309,146</u>
Net increase (decrease) in cash	(80,901)	41,981
Cash at beginning of year	<u>714,810</u>	<u>672,829</u>
Cash at end of year	\$ <u>633,909</u>	<u>714,810</u>

See accompanying notes to financial statements.

KUNI-FM/KHKE-FM RADIO
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Statements of Cash Flows, continued
Years ended June 30, 2008 and 2007

	2008	2007
Reconciliation of net operating revenues (expenses) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (477,336)	(242,177)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	64,745	45,677
(Increase) decrease in:		
Accounts, non-capital grants and pledges receivable	28,086	(17,773)
Due from affiliated organizations	(147,787)	-
Inventory	2,526	1,534
Prepaid expenses	9,029	4,206
Increase (decrease) in:		
Accounts payable	(13,849)	3,470
Advance payments on underwriting agreements	24,474	-
Compensated absences payable	14,000	11,000
Net cash provided (used) by operating activities	\$ (496,112)	(194,063)

See accompanying notes to financial statements.

KUNI-FM/KHKE-FM RADIO
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(1) Reporting Entity, Basis of Presentation and Summary of Significant Accounting Policies

Reporting Entity

KUNI-FM/KHKE-FM Radio ("KUNI/KHKE") is a department of the University of Northern Iowa, Cedar Falls, Iowa, operating KUNI-FM and KHKE-FM radio stations and is not a discrete legal entity. The financial statements of KUNI/KHKE include as a blended component unit, the Friends of KHKE/KUNI, Inc., a nonprofit Iowa Corporation governed by a self-appointed 18-member board. A copy of the Friends' financial statements may be obtained by contacting the broadcasting services department at the University of Northern Iowa.

Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The Station follows all applicable GASB pronouncements as well as FASB, APB and ARB pronouncements in accounting and reporting for the Station's operations.

Net Assets

In the statement of net assets, net assets includes the following:

- *Invested in capital assets, net of related debt* – This is the component of net assets that reports the difference between capital assets less both accumulated depreciation and the outstanding balance of debt that is directly attributable to the acquisition, construction, or improvement of those assets. At June 30, 2008, there is no related debt.
- *Restricted assets* – The component of net assets that reports the constraints placed on the use of net assets by either external parties and/or enabling legislation.
- *Unrestricted assets* – The difference between the assets and liabilities that is not reported in *invested in capital assets, net of related debt and restricted assets*.

Cash Equivalents

Cash equivalents consist of short-term, highly liquid investments which are readily convertible into cash within ninety (90) days of purchase.

Pledges and Contributions

Friends of KHKE/KUNI, Inc. engaged in periodic fundraising campaigns manifested by offering on-air and mail fundraising appeals during fiscal year 2007. These appeals encouraged supporters, both individuals and organizations, to provide financial contributions to the Friends for enhancement of the program offerings and other operating expenses of KUNI/KHKE. Financial contributions were frequently evidenced by pledges received from responding listeners. Contributions including unconditional promises to give and membership receipts were recognized as revenue in the period received or given. However, uncollected pledges are not enforceable against contributors. An allowance for uncollectible contributions receivable was provided based on management's judgment including such factors as prior collection history and type of contribution. Contributions and collected pledges are components of the unrestricted operating fund inasmuch as their usage is not limited to specific activities of KUNI/KHKE. This usage is consistent with appeals for contributions and pledges. During fiscal year 2008, Iowa Public Radio (IPR) took over the membership records, and began soliciting funds for the radio stations in the name of IPR.

KUNI-FM/KHKE-FM RADIO
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Notes to Financial Statements, continued
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(1) Reporting Entity, Basis of Presentation and Summary of Significant Accounting Policies, continued

Inventory

The inventory of premiums used in the fundraising efforts of Friends of KHKE/KUNI, Inc. is valued at cost using the first-in first-out method.

Broadcasting Equipment

Broadcasting equipment includes equipment owned by the University of Northern Iowa for the predominant use of KUNI/KHKE. Additions are recorded at cost, or, in the case of donated property, at their estimated fair value at the date of receipt. Expenditures for repairs and maintenance and for equipment purchases of less than \$5,000 are charged to operating expense as incurred. Depreciation is recorded using the straight-line method over the estimated useful lives of the equipment.

In-Kind Contributions

Contributed materials, supplies, facilities, and property are recorded at their estimated fair value at the date of donation. KUNI/KHKE reports gifts of equipment, professional services, materials and other non-monetary contributions as unrestricted revenue in the accompanying statements of revenue, expenses, and changes in net assets.

If the fair value of contributed materials, supplies, facilities, and property cannot be reasonably determined they are not recorded. Donated personal services of nonprofessional volunteers, as well as national and local programming services, are not recorded as revenue and expense as there is no objective basis available to measure the value of such services.

Revenue Recognition

University appropriations and IPR support are recorded as revenue in the statement of revenues, expenses and changes in net assets when an expenditure is recorded.

Membership contributions are recognized as operating revenues in the period they are received.

Corporation for Public Broadcasting Community Service Grants

The Corporation for Public Broadcasting (CPB) is a private, nonprofit grantmaking 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 to 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.

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 reported on the accompanying financial statements as increases in restricted net assets until satisfaction of the time and purpose restrictions, after which they are reported as a release from temporarily restricted net assets and an increase in unrestricted net assets.

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Notes to Financial Statements, continued
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(1) Reporting Entity, Basis of Presentation and Summary of Significant Accounting Policies, continued

Indirect Administrative Support

Indirect support from the University of Northern Iowa consists of allocated institutional support and physical plant costs incurred by the University for which KUNI/KHKE receives benefits. The fair value of this support is recognized in the statements of revenue, expenses, and changes in net assets as facilities and administrative support and also as operating expense.

Operating and Non-Operating Activities

Operating Activities as reported on the statements of revenue, expenses, and changes in net assets are transactions that generally result from the provision of public broadcasting, and from the production of program material for distribution in public broadcasting. Revenues associated with, or restricted by donors to use for, capital improvements, and revenues and expenses that result from financing and investing activities are recorded as non-operating revenues.

Advertising Costs

Advertising costs are expensed in the period in which they are incurred.

Operating Leases

KUNI/KHKE leases tower space for certain repeater stations from third parties under lease agreements. The leases are accounted for as operating leases and are for various terms ranging from 5 to 10 years, with additional renewal options.

KUNI/KHKE leases space on certain towers that it owns to various third parties with lease terms ranging from one to five years, with renewal options. Tower rental income is included as nonoperating revenues in the statements of revenue, expenses, and changes in net assets.

Functional Allocation of Expenses

The costs of providing the various program services and other activities have been summarized on a functional basis in the statements of revenue, expenses, and changes in net assets and in the statement of functional expenses. Accordingly, certain costs have been allocated among the program and supporting services on the basis of benefits received.

Use of Estimates

The preparation of the accompanying 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 amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Investment Risks

KUNI/KHKE manages interest rate risk (the risk that changes in interest rates will adversely affect the fair value of an investment) with segmented time distribution. They manage credit risk by holding cash in high-quality financial institutions. Mutual fund and non-governmental bond fund ratings are not available.

KUNI-FM/KHKE-FM RADIO
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Notes to Financial Statements, continued
June 30, 2008 and 2007

(2) Investments

Investments consisting of certificates of deposit, mutual funds and non-government bond funds, which are stated at fair value, are summarized as follows as of June 30, 2008:

Fair	<u>Cost</u>	<u>Value</u>
Certificates of deposit	\$ <u>311,641</u>	<u>311,641</u>
Mutual funds	\$ 640,305	751,537
Stocks	630,248	609,273
Non-Government bond funds	<u>460,649</u>	<u>471,966</u>
	\$ <u>1,731,202</u>	<u>1,832,776</u>

Concentration of Credit Risk

The following investments are more than five percent of total investments:

	<u>Cost</u>	<u>Fair Value</u>
Mutual funds:		
American Cash Management Trust of America	\$ 214,664	214,656
Vanguard 500 Index Trust	208,048	243,092
Vanguard Small Cap Index Fund	141,428	236,526
Stocks:		
I Shares MCSI EAFE Index Fund	134,032	126,696
Non-Government bond funds:		
PIMCO Mgt Series Bond Fund	278,182	298,160
Evergreen Adj Rate Bond Fund	182,467	173,806

Investment Income

The following schedule summarizes the investment income for the years ended June 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Interest income	\$ 42,610	45,727
Dividend income	46,124	59,629
Net gain (loss)	<u>(124,864)</u>	<u>152,354</u>
	\$ <u>(36,130)</u>	<u>257,710</u>

(3) Fair Values of Financial Instruments

KUNI/KHKE's financial instruments, none of which are held for trading purposes, include cash and investments. KUNI/KHKE estimates that the fair value of all financial instruments at June 30, 2008 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The estimated fair value amounts have been determined by investment companies using available market information and appropriate valuation methodologies. Considerable judgment is required in interpreting market data to develop the estimates of fair value, and accordingly, the estimates are not necessarily indicative of the amounts that KUNI/KHKE could realize in a current market exchange.

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Notes to Financial Statements, continued
June 30, 2008 and 2007

(4) Broadcasting Equipment, Net

A summary of broadcasting equipment at June 30, 2008 and 2007 is as follows:

	July 1, 2007			June 30, 2008
	Beginning			Ending
	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>
Towers and transmission equipment	\$ 756,345	592,846	60,933	1,288,258
Broadcast and production equipment	347,887	95,560	-	443,447
Office furniture and equipment	45,545	24,022	14,742	54,825
Total	<u>1,149,777</u>	<u>712,428</u>	<u>75,675</u>	<u>1,786,530</u>
Less accumulated depreciation:				
Towers and transmission equipment	510,710	34,348	38,262	506,796
Broadcast and production equipment	256,302	28,435	-	284,737
Office furniture and equipment	35,782	1,962	14,742	23,002
Total	<u>802,794</u>	<u>64,745</u>	<u>53,004</u>	<u>814,535</u>
Property and equipment, net	\$ <u>346,983</u>	<u>647,683</u>	<u>22,671</u>	<u>971,995</u>
	July 1, 2006			June 30, 2007
	Beginning			Ending
	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>
Towers and transmission equipment	\$ 729,549	77,770	50,974	756,345
Broadcast and production equipment	323,705	24,182	-	347,887
Office furniture and equipment	34,610	10,935	-	45,545
Total	<u>1,087,864</u>	<u>112,887</u>	<u>50,974</u>	<u>1,149,777</u>
Less accumulated depreciation:				
Towers and transmission equipment	537,704	23,980	50,974	510,710
Broadcast and production equipment	235,777	20,525	-	256,302
Office furniture and equipment	34,610	1,172	-	35,782
Total	<u>808,091</u>	<u>45,677</u>	<u>50,974</u>	<u>802,794</u>
Property and equipment, net	\$ <u>279,773</u>	<u>67,210</u>	<u>-</u>	<u>346,983</u>

(5) Equipment Liens

Equipment purchased with National Telecommunications and Information Administration Grants are subject to a ten year lien, during which time the U.S. Department of Commerce retains a priority reversionary interest. The equipment is considered to be owned by the University of Northern Iowa, and is included in the investment in broadcasting equipment at net book value.

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Notes to Financial Statements, continued
June 30, 2008 and 2007

(6) Restricted Net Assets

Temporarily restricted net assets are available for the following purposes or periods:

CPB Community Service Grants	\$	200,523
CPB Digital Conversion Grants		<u>35,000</u>
	\$	<u>235,523</u>

(7) Compensated Absences

University employees accumulate vacation and sick leave under provisions of Chapter 70A of the Code of Iowa. These accumulated benefits may be liquidated under specific circumstances. Accumulated vacation is paid at the employee's hourly rate upon retirement, death, or termination. With certain exceptions, accumulated sick leave is paid at the employee's hourly rate to a maximum of \$2,000 on retirement. As of June 30, 2008 and 2007, the liability for compensated absences, including accrued retirement and FICA contributions, is estimated to be \$218,000 and \$204,000, respectively.

(8) Retirement Programs

All of the Stations' personnel are employees of the University. 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. The University determines the expense related to the retirement program and allocates the expense to the Stations as part of compensation expense.

(9) Community Service Grants (CSGs)

KUNI/KHKE receives a Community Service Grant (CSG) from the Corporation for Public Broadcasting annually. The CSGs received and expended during the most recent fiscal years are as follows:

<u>Year of Grant</u>	<u>Grants Received</u>	<u>2006 & Prior</u>	<u>2007</u>	<u>2008</u>	<u>Balance at June 30, 2008</u>
2005	\$ 257,494	329,656	-	-	-
2006	302,480	125,529	176,951	-	-
2007	218,385	-	23,758	163,497	31,130
2008	169,393	-	-	-	169,393

KUNI-FM/KHKE-FM RADIO
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Notes to Financial Statements, continued
June 30, 2008 and 2007

(10) Nonfederal Financial Support (NFFS)

The Corporation for Public Broadcasting (CPB) allocates a portion of its funds annually to public broadcasting entities, primarily based on 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 operational purposes. Support received as a contribution by a 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.

A "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 broadcast station; and (4) the recipient must be a public broadcasting entity on behalf of a public broadcast station.

KUNI/KHKE reported NFFS of \$2,454,578 and \$2,010,960 for 2008 and 2007, respectively.

(11) Facilities and Indirect Administrative Support

Indirect support from the University of Northern Iowa consists of allocated institutional support and physical plant costs incurred by the University for which KUNI/KHKE receives benefits. The fair value of this support is recognized in the statements of revenue, expenses, and changes in net assets as facilities and administrative support and also as operating expense. The administrative support cost pool is allocated based on broadcasting department expenditures compared to total applicable general education fund expenditures, net of capital additions. Physical plant operations are allocated based on square footage.

In addition, the University provides office, studio and tower facilities, the benefit for which is included as a building use allowance at the approved rate. The value of this support included in the Statements of Activities was \$408,502 and \$349,768 for the years ended June 30, 2008 and 2007, respectively.

KUNI-FM/KHKE-FM RADIO
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Notes to Financial Statements, continued
June 30, 2008 and 2007

(12) Lease Commitments

KUNI/KHKE has lease agreements to rent tower space with several companies. The leases generally begin with a five or ten year term, with five year renewal options. Tower rent included in expense in 2008 is \$89,684 (2007; \$85,406). Future minimum rentals at June 30, 2008 are as follows:

2009	\$ 79,456
2010	81,840
2011	48,121
2012	14,021
2013	14,441
Thereafter	<u>14,874</u>
	\$ <u>252,753</u>

(13) Related Party

In May 2007, the Board of Regents State of Iowa (BOR), 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 a Public Service Operating Agreement which designated IPR to provide administrative and fund raising services for the radio stations. IPR had previously established a Board of Directors with an Executive Director and senior management team, which includes one licensee director appointed by each university. The Director and the team are charged with managing all facets of the stations' broadcasting and fund raising operations. In July, 2007, IPR began providing coordinated fund raising for the three broadcast organizations and distributing funds to the stations.

Support from IPR in 2008 includes direct contributions of \$196,690 and in-kind support for administrative services provided by IPR of \$317,676, totaling \$514,366.

At June 30, 2008, KUNI/KHKE has receivables from IPR of \$19,847 for reimbursement of salaries, benefits and other expenses and \$127,940 for contributions, totaling \$147,787.

KUNI-FM/KHKE-FM RADIO
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 Schedule of Functional Expenses
 Years ended June 30, 2008 and 2007

	2008						
	Programming Services			Support Services			
	Programming and Production	Broadcasting	Program Information	Total Program Services	Management and General	Fund Raising	Total
Salaries	\$ 601,640	156,083	58,942	816,665	77,154	98,518	992,337
Services	310,708	103,180	56,856	470,744	202,669	70,242	743,655
Institutional support	-	-	-	-	255,561	-	255,561
Occupancy	92,726	24,056	9,084	125,866	11,891	15,184	152,941
Supplies	6,049	85,610	3,300	94,959	4,283	3,179	102,421
Tower rent and electricity	-	128,989	-	128,989	-	-	128,989
Telephone	13,386	17,359	1,501	32,246	4,222	5,097	41,565
Travel	8,783	1,982	3,345	14,110	1,154	2,795	18,059
Printing	96	96	5,108	5,300	640	4,638	10,578
Postage	244	556	2,670	3,470	259	5,238	8,967
Depreciation	34,348	28,435	-	62,783	1,962	-	64,745
	\$ 1,067,980	546,346	140,806	1,755,132	559,795	204,891	2,519,818

See accompanying notes to financial statements.

KUNI-FM/KHKE-FM RADIO
 A Public Telecommunications Entity
 Operated by the University of Northern Iowa
 Schedule of Functional Expenses
 Years ended June 30, 2008 and 2007

	2007						
	Programming Services			Support Services			
	Programming and Production	Broadcasting	Program Information	Total Program Services	Management and General	Fund Raising	Total
Salaries	628,862	133,750	71,551	834,163	126,515	79,976	1,040,654
Services	248,489	43,536	5,592	297,617	190,565	26,216	514,398
Institutional support	-	-	-	-	199,345	-	199,345
Occupancy	90,900	19,333	10,342	120,575	18,287	11,560	150,422
Supplies	11,585	25,596	18,400	55,581	5,220	11,413	72,214
Tower rent and electricity	-	127,024	-	127,024	-	-	127,024
Telephone	16,289	16,532	1,584	34,405	3,538	5,873	43,816
Travel	10,635	300	954	11,889	2,962	4,622	19,473
Printing	7	-	6,111	6,118	1,591	10,113	17,822
Postage	501	911	4,094	5,506	1,614	9,500	16,620
Depreciation	20,525	23,980	-	44,505	1,172	-	45,677
	<u>\$ 1,027,793</u>	<u>390,962</u>	<u>118,628</u>	<u>1,537,383</u>	<u>550,809</u>	<u>159,273</u>	<u>2,247,465</u>

See accompanying notes to financial statements.



REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

KUNI-FM/KHKE-FM Radio
University of Northern Iowa

We have audited the financial statements of **KUNI-FM/KHKE-FM Radio**, as of and for the year ended June 30, 2008, and have issued our report thereon dated October 27, 2008. Our report was modified to include a reference to other auditors. 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. Other auditors audited the financial statements of Friends of KHKE/KUNI, Inc., as described in our report on **KUNI-FM/KHKE-FM Radio's** financial statements. The financial statements of Friends of KHKE/KUNI, Inc. were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered **KUNI-FM/KHKE-FM Radio's** internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of **KUNI-FM/KHKE-FM Radio's** internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of **KUNI-FM/KHKE-FM Radio's** 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 **KUNI-FM/KHKE-FM Radio'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 **KUNI-FM/KHKE-FM Radio's** financial statements that is more than inconsequential will not be prevented or detected by **KUNI-FM/KHKE-FM Radio's** internal control.

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 prevented or detected by **KUNI-FM/KHKE-FM Radio'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 did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **KUNI-FM/KHKE-FM Radio's** 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 or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than these specified parties.

Corwin, Reichter & Company, P.C.

Clive, Iowa
October 27, 2008