

**WUOM/WVGR/WFUM-FM
(A PUBLIC TELECOMMUNICATIONS ENTITY
OPERATED BY THE UNIVERSITY OF MICHIGAN)**

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006
with
REPORT OF INDEPENDENT AUDITORS**

WUOM/WVGR/WFUM-FM
(A PUBLIC TELECOMMUNICATIONS ENTITY
OPERATED BY THE UNIVERSITY OF MICHIGAN)

June 30, 2006

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Report of Independent Auditors

The Regents of the University of Michigan

In our opinion, the accompanying statement of net assets and the related statements of revenues, expenses and changes in net assets and cash flows present fairly, in all material respects, the financial position of WUOM/WVGR/WFUM-FM (“Michigan Radio”) at June 30, 2006, and the revenues, expenses and changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of Michigan Radio’s management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Management's Discussion and Analysis (“MD&A”) on pages 2 through 11 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 MD&A. However, we did not audit the information and express no opinion on it.

PricewaterhouseCoopers LLP

February 14, 2007

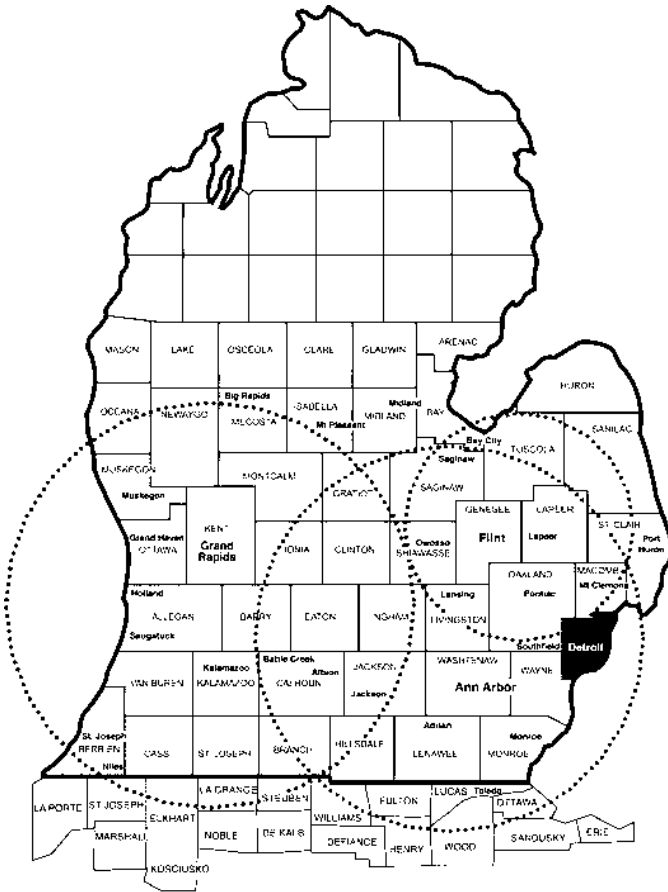
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Management's Discussion and Analysis (Unaudited)

Introduction

The following discussion and analysis provides an overview of the financial position of WUOM/WVGR/WFUM-FM ("Michigan Radio") at June 30, 2006 and its activities for the two fiscal years ended June 30, 2006. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

WUOM/WVGR/WFUM-FM, a network of three public radio stations in southern Michigan recognized as Michigan Radio, is licensed by the Federal Communications Commission and operates under control of the Regents of the University of Michigan (the "University") through its Michigan Public Media unit. Michigan Radio, a founding member of National Public Radio ("NPR"), broadcasts its award-winning news and information programming 24 hours a day.



- With its main studios located in Ann Arbor, Michigan Radio comprises: WUOM - Ann Arbor (91.7 FM, 93 KW), WVGR - Grand Rapids (104.1 FM, 96 KW) and WFUM-FM - Flint (91.1 FM, 17.5 KW). Combined, the three stations provide service to most of the southern two-thirds of Michigan's lower peninsula.
- Michigan Radio is one of the most listened to public radio station groups in the country, with 457,800 weekly listeners to its stations. (*Adults 12+, Arbitron Ratings, Fall 2006, RRC*)

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Management's Discussion and Analysis (Unaudited) -- Continued

Michigan Radio serves as a vital outlet for the southern Michigan region by providing a premier radio service of noncommercial news, talk and entertainment programming. With well-known national programs from National Public Radio (NPR), Public Radio International (PRI) and American Public Media (APM), Michigan Radio serves a distinctive combination of national and local programming to a growing audience of 457,800 listeners each week from its studios in Ann Arbor and news bureau in Grand Rapids. In addition, Michigan Radio offers special and expanded features on its web portal, Michiganradio.org, including additional online news and cultural affairs content along with 24 hour a day audio streaming.

As a national broadcast production facility, Michigan Radio produces "The Environment Report" through its Great Lakes Radio Consortium ("GLRC") unit. This regional environmental news service is broadcast to over 140 radio stations across the United States and reaches over 3 million listeners monthly. Since its founding in 1995, the GLRC has won more than 80 national and state awards for journalistic excellence, including the prestigious Edward R. Murrow award in 2002. Financial support for "The Environment Report" is generated from foundation and non-profit grant support by national, regional and state organizations.

Michigan Radio continues to refine its core program schedule, while staying true to its mission of providing important and intelligent public radio programs. In fiscal year 2006, Michigan Radio offered significant local news coverage and special broadcasts of the mid-term elections. Michigan Radio regional coverage included broadcasts of the Michigan gubernatorial and senatorial candidate debates prior to the November elections. The Michigan Radio Art and Humanities Radio Project exposed listeners to a broad array of artists, ideas, events, and trends that happen across the state. As part of Michigan Radio's commitment to the arts and humanities, over fifty features were produced on a variety of topics. Michigan Radio also continued its tradition of in-depth health reporting with a series of sound-rich features on the issues of childhood obesity around the state.

Michigan Radio has been awarded the coveted Station of the Year award by the Michigan Association of Broadcasters six of the last eight years. This award recognizes comprehensive coverage of state and regional issues. Michigan Radio has also been recognized for excellence in environmental, arts and humanities and health reporting.

Michigan Radio's listenership continues to be strong, with its three FM radio stations reaching 80 percent of Michigan's population. Most recent listener surveys from fall 2006 show Michigan Radio growing its following in Metro Detroit and Grand Rapids, where it holds the distinction as the most listened to public radio station in the two largest markets of the state. A new permanent radio tower which is under construction to service the west coast of Michigan will deliver a four fold stronger signal to the region and create opportunity for new listenership in previously unserved areas, including the Lake Michigan shore communities and areas of considerable minority population.

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Management's Discussion and Analysis (Unaudited) -- Continued

Financial Highlights

Michigan Radio's financial position remains strong, with assets of \$9.0 million and liabilities of \$1.6 million at June 30, 2006. Net assets, which represent the residual interest in Michigan Radio's assets after liabilities are deducted, increased \$1.4 million in fiscal year 2006, to \$7.4 million at June 30, 2006. Changes in net assets represent Michigan Radio's results of operations and are summarized for the year ended June 30, 2006 as follows (in thousands):

Operating revenues	\$ 2,716
Operating expenses	<u>5,803</u>
	(3,087)
Private gifts for operating purposes	2,545
General University appropriations	663
Capital grants and gifts	522
Other revenues, net	<u>797</u>
Increase in net assets	<u>\$ 1,440</u>

Michigan Radio's net assets increased \$1.4 million in fiscal year 2006 primarily due to private giving and capital grants. Michigan Radio relies heavily on private donations to support its programming and supporting services. Capital grants and gifts received are in support of a new radio transmission tower to serve the west coast of Michigan. Other revenues include \$290,000 which represents land purchased by the University in a prior fiscal year for this tower project that is reflected as a transfer to Michigan Radio in fiscal year 2006.

Using the Financial Statements

Michigan Radio's financial report 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. These financial statements are prepared in accordance with Governmental Accounting Standards Board ("GASB") principles.

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Management's Discussion and Analysis (Unaudited) -- Continued

Statement of Net Assets

The statement of net assets presents the financial position of Michigan Radio at the end of the fiscal year, and includes all assets and liabilities of Michigan Radio. The difference between total assets and total liabilities – net assets – is one indicator of the current financial condition of Michigan Radio, while the change in net assets is an indication of whether the overall financial condition improved or worsened during the year. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allowance for depreciation and amortization.

Michigan Radio's assets, liabilities and net assets at June 30, 2006 are summarized as follows (in thousands):

Current assets	\$ 6,020
Noncurrent assets	<u>2,986</u>
Total assets	<u>9,006</u>
Current liabilities:	
Deferred revenue	1,054
Other current liabilities	<u>538</u>
Total liabilities	<u>1,592</u>
Net assets	<u>\$ 7,414</u>

Current assets consist primarily of cash and cash equivalents, which totaled \$5.1 million at June 30, 2006. Current liabilities consist primarily of deferred revenue, which totaled \$1.1 million at June 30, 2006 and represents amounts received in advance of providing services. Other current liabilities consist primarily of accrued compensation and accounts payable.

Noncurrent assets consist primarily of capital assets, which totaled \$2.9 million at June 30, 2006. Michigan Radio commenced a \$1.3 million capital project in fiscal year 2005 to construct a tower and transmitter in west Michigan on land in Barry County. WVGR is currently transmitting from a temporary site with reduced operating power of 20,000 watts and this project will improve reception throughout its coverage area. The new transmission facility will have a 785 foot tower, state of the art antenna and transmitters with a power of 96,000 watts. When completed in December 2006, this facility will enable WVGR to broadcast in full digital HD (high definition) audio. At June 30, 2006, construction in progress for this project totaled \$1.2 million. During fiscal year 2006, digital radio conversions to high definition were completed for WUOM, which broadcasts to the Ann Arbor/Detroit area, and WFUM-FM, which broadcasts to the Flint area.

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Management's Discussion and Analysis (Unaudited) -- Continued

Net Assets

The composition of Michigan Radio's net assets at June 30, 2006 is summarized as follows (in thousands):

Invested in capital assets, net of related debt	\$ 2,709
Restricted:	
Nonexpendable	12
Expendable	3,205
Unrestricted	<u>1,488</u>
	<u>\$ 7,414</u>

Net assets invested in capital assets represent Michigan Radio's capital assets net of accumulated depreciation and amortization and accounts payable attributable to the acquisition, construction or improvement of those assets.

Restricted nonexpendable net assets represent the historical value (corpus) of gifts to Michigan Radio's permanent endowment funds. Restricted expendable net assets are subject to externally imposed stipulations governing their use. This category of net assets includes net appreciation of permanent endowments and net assets restricted for operations and facilities.

Although unrestricted net assets are not subject to externally imposed stipulations, Michigan Radio's unrestricted net assets have been designated by management for various programs and initiatives, as well as capital projects.

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Management's Discussion and Analysis (Unaudited) -- Continued

Statement of Revenues, Expenses and Changes in Net Assets

The statement of revenues, expenses and changes in net assets presents Michigan Radio's results of operations. In accordance with GASB reporting principles, revenues and expenses are classified as either operating or nonoperating. Certain reclassifications to fiscal year 2005 revenues and expenses were made to conform with fiscal year 2006 presentation. A comparison of Michigan Radio's revenues, expenses and changes in net assets for the years ended June 30, 2006 and 2005 is summarized as follows:

	<u>2006</u>	<u>2005</u>
	(in thousands)	
Operating revenues	\$ 2,716	\$ 2,412
Operating expenses	<u>5,803</u>	<u>4,858</u>
Operating loss	<u>(3,087)</u>	<u>(2,446)</u>
Nonoperating and other revenues (expenses):		
Private gifts	2,545	2,213
General University appropriations	664	659
Capital grants and gifts	522	147
Indirect administrative support	359	101
Net investment income	189	72
Transfers to Michigan Television	(42)	(140)
Other	<u>290</u>	<u> </u>
Nonoperating and other revenues, net	<u>4,527</u>	<u>3,052</u>
 Increase in net assets	 1,440	 606
 Net assets, beginning of year	 <u>5,974</u>	 <u>5,368</u>
Net assets, end of year	<u>\$ 7,414</u>	<u>\$ 5,974</u>

Michigan Radio's most significant revenue stream is private gifts for operating purposes, which increased \$332,000 to \$2.5 million, with more than 18,000 contributing members. Capital grants and gifts, which are primarily for the west Michigan tower and transmitter project, increased \$375,000 in fiscal year 2006 to \$522,000.

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Management's Discussion and Analysis (Unaudited) -- Continued

The University provides support to Michigan Radio in the form of general appropriations and indirect administrative support. Indirect administrative support represents an allocation of costs of certain central University units that provide services to Michigan Radio, and is reflected as both nonoperating revenue and indirect operating expense. Indirect administrative support increased \$258,000 in fiscal year 2006 to \$359,000 as Michigan Radio developed and implemented a more refined methodology to allocate indirect administrative support provided by the University.

Transfers to Michigan Television, WFUM-TV, represent transfers of unrestricted funds to provide direct support for operating expenses not provided through other sources. Michigan Television is a related party which shares common management through the University's Michigan Public Media unit.

Other revenues of \$290,000 represent land purchased by the University for Michigan Radio in a prior fiscal year that is reflected as a transfer to Michigan Radio in fiscal year 2006. Michigan Radio is constructing a tower on this land to enhance its west Michigan, WVGR broadcasts.

The following table presents a comparative summary of Michigan Radio's operating revenues for the years ended June 30, 2006 and 2005:

	2006	2005
	(in thousands)	
Underwriting	\$ 1,385	\$ 1,305
Corporation for Public Broadcasting grants	596	340
Federal and nongovernmental sponsored programs	511	394
Trade	165	316
Other	59	57
	\$ 2,716	\$ 2,412

Operating revenues increased \$304,000, or 13 percent, in fiscal year 2006 to \$2.7 million. Corporation for Public Broadcasting ("CPB") grants revenue increased \$256,000 primarily due to an increase in the amount of community service grant revenue. Federal and nongovernmental sponsored programs increased \$117,000 primarily as a result of new grants received to support the expansion of arts and humanities special reporting projects on Michigan Radio. Trade revenue declined \$151,000 as Michigan Radio focused on strengthening internal controls by more clearly defining situations where trade (in-kind barter-type) agreements to provide goods and services are an appropriate exchange for on-air credit announcements.

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Management's Discussion and Analysis (Unaudited) -- Continued

The following table presents a comparative summary of Michigan Radio's operating expenses for the years ended June 30, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
	(in thousands)	
Direct:		
Programming and production	\$ 2,969	\$ 2,735
Engineering	622	366
Development	1,204	1,070
Management and general	<u>649</u>	<u>586</u>
	<u>5,444</u>	<u>4,757</u>
Indirect:		
Programming and production	196	58
Engineering	40	8
Development	80	23
Management and general	<u>43</u>	<u>12</u>
	<u>359</u>	<u>101</u>
Total operating expenses	<u>\$ 5,803</u>	<u>\$ 4,858</u>

Total operating expenses increased \$945,000, or 19 percent, in fiscal year 2006 to \$5.8 million. Direct operating expenses increased \$687,000 primarily due to increased sponsored programs activities and program fees from national distributors and networks, as well as costs associated with management turnover.

Indirect expenses represent an allocated amount for institutional support incurred by the University on behalf of Michigan Radio, and are reflected as both indirect operating expense and nonoperating revenue. Indirect expenses increased \$258,000 due to implementation of a more refined methodology to allocate indirect administrative support.

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Management's Discussion and Analysis (Unaudited) -- Continued

Statement of Cash Flows

The statement of cash flows provides additional information about Michigan Radio's financial results by reporting the major sources and uses of cash. A comparative summary of the statement of cash flows for the years ended June 30, 2006 and 2005 is as follows:

	<u>2006</u>	<u>2005</u>
	(in thousands)	
Cash received from operations	\$ 2,511	\$ 923
Cash expended for operations	<u>(5,062)</u>	<u>(3,884)</u>
Net cash used in operating activities	(2,551)	(2,961)
Net cash provided by investing activities	162	69
Net cash used in capital financing activities	(549)	(418)
Net cash provided by noncapital financing activities	<u>3,112</u>	<u>4,162</u>
Net increase in cash and cash equivalents	174	852
Cash and cash equivalents, beginning of year	<u>4,931</u>	<u>4,079</u>
Cash and cash equivalents, end of year	<u>\$ 5,105</u>	<u>\$ 4,931</u>

Economic Factors That Will Affect the Future

To meet the challenges of the future, Michigan Radio must take into account many influences outside its control. The health of the national, state and local economy, for example, can have a significant impact on funding available for public radio from a broad range of sources including the Corporation for Public Broadcasting, corporate and federal sponsors, private giving and the University.

Michigan Radio has enjoyed success with listener membership fundraising campaigns; however, it is mindful of the fact that revenue that is dependent on the giving ability of its membership will fluctuate with economic conditions. The strength of the Michigan Radio's programming, the success of past membership fundraising campaigns and the continued increase in audience listenership are important foundations to build on as Michigan Radio looks to maintain and grow the revenue needed to support its operating and capital programs.

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Management's Discussion and Analysis (Unaudited) -- Continued

During fiscal year 2007, Michigan Radio will place in service its new west Michigan radio tower and transmitter. This transmission facility, which includes a newly constructed 785 foot tower, state of the art antenna and transmitters with a power of 96,000 watts, will enable broadcasting in full digital high definition audio. With the completion of this project, WVGR will become the most powerful public radio station on the west coast of Michigan, with four times the transmission power of its previous temporary tower assignment. This project will provide an expanded broadcast coverage area which can translate to audience growth for the station. This anticipated growth can also convert to increased member contributors and improved underwriting support from area businesses and non-profit organizations.

With the completion of the west Michigan transmission facility project in fiscal year 2007, which follows the completion of digital radio (high definition) conversions for WUOM and WFUM-FM in fiscal year 2006, Michigan Radio will be well positioned to roll out a new generation of content across many distribution platforms. For example, Michigan Radio is considering various capital and program initiatives to use its high definition digital radio capability to offer additional free, over-the-air, alternate program services to its coverage area. The result can be up to two new 24/7 program services from Michigan Radio, in addition to its current main channel of NPR, local news and information. This option of "multicasting", offering more than one stream simultaneously in static-free, crystal-clear reception, presents exciting opportunities to broaden Michigan Radio's scope of programming on several audio channels, as well as offering on-screen data.

While it is not possible to predict the ultimate results, management believes that Michigan Radio's financial condition will remain strong.

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Statement of Net Assets

	<u>June 30, 2006</u>
Assets	
Current Assets:	
Cash and cash equivalents on deposit with the University of Michigan	\$ 5,105,120
Accounts receivable, net	571,425
Pledges receivable, net	63,368
Prepaid expenses	223,377
Premium inventory	38,700
Other	<u>18,078</u>
Total Current Assets	<u>6,020,068</u>
Noncurrent Assets:	
Capital assets, net	2,948,478
Endowment investments on deposit with the University of Michigan	<u>37,583</u>
Total Noncurrent Assets	<u>2,986,061</u>
Total Assets	<u>\$ 9,006,129</u>
 Liabilities and Net Assets	
Current Liabilities:	
Accounts payable	\$ 310,529
Accrued compensation and other	227,544
Deferred revenue	<u>1,054,132</u>
Total Current Liabilities	<u>1,592,205</u>
Net Assets:	
Invested in capital assets, net of related debt	2,708,906
Restricted:	
Nonexpendable	12,000
Expendable	3,204,848
Unrestricted	<u>1,488,170</u>
Total Net Assets	<u>7,413,924</u>
Total Liabilities and Net Assets	<u>\$ 9,006,129</u>

The accompanying notes are an integral part of the financial statements.

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

	<u>Year Ended June 30, 2006</u>
Operating Revenues	
Underwriting	\$ 1,385,313
Corporation for Public Broadcasting grants	595,765
Nongovernmental sponsored programs	432,059
Federal grants and contracts	79,387
Trade	164,841
Premium sales	36,349
Other	<u>22,486</u>
Total Operating Revenues	<u>2,716,200</u>
Operating Expenses	
Program Services:	
Programming and production	3,165,287
Engineering	<u>662,133</u>
Total Program Services	<u>3,827,420</u>
Supporting Services:	
Development	1,283,546
Management and general	<u>691,854</u>
Total Supporting Services	<u>1,975,400</u>
Total Operating Expenses	<u>5,802,820</u>
Operating loss	<u>(3,086,620)</u>
Nonoperating Revenues	
Private gifts	2,544,962
General appropriations from the University of Michigan	663,410
Indirect administrative support from the University of Michigan	358,930
Net investment income	<u>188,686</u>
Total Nonoperating Revenues	<u>3,755,988</u>
Income before other changes in net assets	<u>669,368</u>
Other Changes in Net Assets	
Capital grants and gifts	521,917
Transfers to Michigan Television	(42,000)
Other	<u>290,238</u>
Total Other Changes in Net Assets	<u>770,155</u>
Increase in net assets	1,439,523
Net Assets, Beginning of Year	<u>5,974,401</u>
Net Assets, End of Year	<u>\$ 7,413,924</u>

The accompanying notes are an integral part of the financial statements.

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Statement of Cash Flows

	<u>Year Ended June 30, 2006</u>
Cash Flows from Operating Activities	
Underwriting	\$ 1,416,379
Corporation for Public Broadcasting grants	634,643
Nongovernmental sponsored programs	325,339
Federal grants and contracts	79,387
Premium sales	36,349
Other receipts	18,606
Payments for salaries and benefits	(2,799,710)
Payments for program rights	(1,049,255)
Payments for operating and administrative expenses	<u>(1,212,800)</u>
Net Cash Used in Operating Activities	<u>(2,551,062)</u>
Cash Flows from Investing Activities	
Net investment income	<u>162,056</u>
Net Cash Provided by Investing Activities	<u>162,056</u>
Cash Flows from Capital Financing Activities	
Purchases of capital assets	(963,768)
Capital grants and gifts	<u>414,896</u>
Net Cash Used in Capital Financing Activities	<u>(548,872)</u>
Cash Flows from Noncapital Financing Activities	
Private gifts	2,490,990
General appropriations from the University of Michigan	663,410
Transfers to Michigan Television	<u>(42,000)</u>
Net Cash Provided by Noncapital Financing Activities	<u>3,112,400</u>
Net increase in cash and cash equivalents	174,522
Cash and Cash Equivalents, Beginning of Year	<u>4,930,598</u>
Cash and Cash Equivalents, End of Year	<u>\$ 5,105,120</u>

The accompanying notes are an integral part of the financial statements.

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Statement of Cash Flows--Continued

	<u>Year Ended</u> <u>June 30, 2006</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (3,086,620)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Indirect administrative support from the University of Michigan	358,930
Depreciation and amortization expense	375,694
Changes in assets and liabilities:	
Accounts receivable, net	(15,873)
Prepaid expenses	(27,988)
Premium inventory	5,041
Accounts payable	(100,393)
Accrued compensation and other	(35,070)
Deferred revenue	<u>(24,783)</u>
Net cash used in operating activities	<u>\$ (2,551,062)</u>

The accompanying notes are an integral part of the financial statements.

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Notes to Financial Statements

June 30, 2006

Note 1--Organization and Summary of Significant Accounting Policies

Organization and Basis of Presentation: WUOM/WVGR/WFUM-FM (“Michigan Radio”) is a public telecommunications entity licensed by the Federal Communications Commission and operated by the University of Michigan (the “University”) through its Michigan Public Media unit. Collectively known as Michigan Radio, this network of three public radio stations includes WUOM - Ann Arbor (91.7 FM, 93 KW), WVGR - Grand Rapids (104.1 FM, 96 KW) and WFUM-FM - Flint (91.1 FM, 17.5 KW). Michigan Radio broadcasts national and local news and information programming 24 hours a day to most of the southern two-thirds of the state of Michigan’s lower peninsula, from its studios in Ann Arbor and news bureau in Grand Rapids.

Michigan Radio operates under control of the University’s Board of Regents (the “Regents”) and, in connection therewith, utilizes assets, title to which is vested in the Regents. As part of the University, Michigan Radio is exempt from income taxes under Internal Revenue Code Sections 501(c)(3) and 115. The assets, liabilities, revenues, expenses and changes in net assets of Michigan Radio are included in the consolidated financial statements of the University.

The 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”), and the American Institute of Certified Public Accountants’ Audit and Accounting Guide, *Audits of State and Local Governments*. Michigan Radio has the option of applying pronouncements issued by the Financial Accounting Standards Board (“FASB”) after November 30, 1989, provided that such pronouncements do not conflict or contradict GASB pronouncements. Michigan Radio has elected not to apply any FASB pronouncements issued after the applicable date.

Net assets are categorized as:

- Invested in capital assets, net of related debt: Capital assets, net of accumulated depreciation, amortization and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.
- Restricted:
 - Nonexpendable – Net assets subject to externally imposed stipulations that they be maintained permanently. Such net assets include the corpus portion (historical value) of gifts to Michigan Radio’s permanent endowment funds.

Expendable – Net assets whose use by Michigan Radio is subject to externally imposed stipulations that can be fulfilled by actions of Michigan Radio pursuant to those stipulation or that expire by the passage of time. Such net assets include net appreciation of Michigan Radio’s permanent endowment funds.

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Notes to Financial Statements--Continued

Note 1--Organization and Summary of Significant Accounting Policies--Continued

- Unrestricted: Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Regents or may otherwise be limited by contractual agreements with outside parties. To conform with University policy, Michigan Radio changed its presentation of net assets in fiscal year 2006 to present net assets whose use is subject to externally imposed stipulations as restricted until expended.

Summary of Significant Accounting Policies: The accompanying financial statements have been prepared on the accrual basis. Michigan Radio reports as a special purpose government entity engaged primarily in business type activities, as defined by GASB Statement No 35, *Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities*. Business type activities are those that are financed in whole or in part by fees charged to external parties for goods or services.

Cash and cash equivalents on deposit with the University of Michigan are those funds invested in the University’s short term investment pool, the University Investment Pool (“UIP”), which can be readily liquidated to pay contractual liabilities. The UIP is principally invested in investment-grade money market securities, U.S. Government and other fixed income securities and commingled funds. For purposes of the statement of cash flows, Michigan Radio considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Endowment investments on deposit with the University of Michigan are those funds invested in the University’s Long Term Portfolio, which is considered by management to be of a long duration. Additional disclosures concerning the risks of the University’s investments may be found in the notes to the consolidated financial statements of the University.

Michigan Radio receives pledges and bequests of financial support from corporations, foundations and individuals. Revenue is recognized when a pledge representing an unconditional promise to pay is received and all eligibility requirements, including time requirements, have been met. In the absence of such a promise, revenue is recognized when the gift is received. An allowance for uncollectible pledges receivable is provided based on management’s judgment of potential uncollectible amounts. The determination includes such factors as prior collection history, type of gift and nature of fundraising.

Prepaid expenses consist primarily of costs incurred for programs not yet broadcast and relate to program rights acquired by Michigan Radio that will be broadcast subsequent to June 30.

Premium inventory consists of promotional items held for distribution to the general public in exchange for membership contributions. Inventory is stated at the lower of cost or market.

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Notes to Financial Statements--Continued

Note 1--Organization and Summary of Significant Accounting Policies--Continued

Capital assets are stated at cost or, if donated, at appraised value at the date of donation. Depreciation of capital assets is provided on a straight-line basis over the estimated useful lives of the respective assets, which range from three to forty years. Leasehold improvements are amortized over the shorter of their estimated useful lives or the related lease term. Michigan Radio capitalizes all expenditures for land, buildings, equipment and improvements in excess of \$5,000.

Deferred revenue consists primarily of cash received from grant and underwriting sponsors which has not yet been earned under the terms of the agreement.

Michigan Radio's policy for defining operating activities as reported on the statement of revenues, expenses and changes in net assets are those that generally result from exchange transactions such as payments received for providing services and payments made for services or goods received. Nonexchange transactions are reported as nonoperating activities. Certain significant revenue streams relied upon for operations are recorded as nonoperating revenues, as defined by GASB Statement No. 35, including private gifts, general appropriations from the University and indirect administrative support from the University.

Underwriting revenue is received from corporate sponsors, non-profit organizations, and university departments and units for on-air credit announcements.

Community Service and other grants are received from the Corporation for Public Broadcasting, a private, non-profit corporation that provides funding for public television and radio programming.

Trade revenue results from in-kind barter-type agreements with outside organizations which provide goods and services in exchange for on-air credit announcements. Trade revenue and related expenses approximate the fair value of the transactions.

Other operating revenue primarily results from rent received from licensing access to Michigan Radio's tower and studio rental.

General appropriations from the University provide direct support for operating expenses not provided through other sources. The University also provides indirect administrative support, which represents an allocated amount for institutional support incurred by the University on behalf of Michigan Radio. Institutional support consists of allocated finance, human resources, development, technology, sponsored programs, and certain other administrative costs. Indirect administrative support is reflected as nonoperating revenue and operating expense as incurred in the accompanying statement of revenues, expenses and changes in net assets. All support received from the University is recorded as nonoperating revenue.

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Notes to Financial Statements--Continued

Note 1--Organization and Summary of Significant Accounting Policies--Continued

The costs of providing various activities have been summarized on a functional basis in the statement of revenues, expenses and changes in net assets. Accordingly, certain costs have been allocated among the program and supporting activities using an objective basis such as time spent, square footage, and percentage of expenses.

Engineering expense includes amounts paid to Michigan Television (WFUM-TV) for utilization of its tower and transmitter facility for WFUM 91.1 FM, which totaled \$10,000 in fiscal year 2006. Michigan Television is a related party which shares common management through the University's Michigan Public Media unit.

Transfers to Michigan Television represent transfers of unrestricted funds to provide direct support for Michigan Television operating expenses not provided through other sources.

Other changes in net assets include a \$290,238 increase in net assets which represents land purchased by the University for Michigan Radio in a prior fiscal year that is reflected as a transfer to Michigan Radio in fiscal year 2006. Michigan Radio is constructing a tower and transmitter facility on this land to enhance its west Michigan service area for WVGR 104.1 FM.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

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Notes to Financial Statements--Continued

Note 2--Accounts Receivable

The composition of accounts receivable at June 30, 2006 is summarized as follows:

Underwriting	\$ 462,645
Grants	75,000
Corporation for Public Broadcasting	45,000
Other	<u>500</u>
	583,145
Less provision for uncollectible accounts receivable	<u>11,720</u>
	<u>\$ 571,425</u>

Note 3--Pledges Receivable

The composition of pledges receivable at June 30, 2006 is summarized as follows:

Gift pledges outstanding	\$ 136,893
Less allowance for doubtfully collectible pledges	<u>73,525</u>
	<u>\$ 63,368</u>

Payments on pledges receivable at June 30, 2006 are expected to be received during fiscal year 2007.

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Notes to Financial Statements--Continued

Note 4--Capital Assets

Capital assets activity for the year ended June 30, 2006 is summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Retirements</u>	<u>Ending Balance</u>
Land			\$ 290,238		\$ 290,238
Transmitter, tower and building	\$ 417,290	\$ 278,430		\$ 141,217	554,503
Leasehold improvements	1,595,490				1,595,490
Construction in progress	<u>521,567</u>	<u>685,338</u>			<u>1,206,905</u>
	2,534,347	963,768	290,238	141,217	3,647,136
Less accumulated depreciation and amortization	<u>464,181</u>	<u>375,694</u>		<u>141,217</u>	<u>698,658</u>
	<u>\$ 2,070,166</u>	<u>\$ 588,074</u>	<u>\$ 290,238</u>	<u>\$ -</u>	<u>\$ 2,948,478</u>

The U.S. Department of Commerce has a reversionary interest in equipment with an original cost of \$137,937 that was purchased in part with a Public Telecommunications Facilities Program ("PTFP") grant received from the National Telecommunications and Information Administration. The reversionary interest in the equipment is pursuant to the terms of federal priority liens which extend for a period of ten years after equipment is placed in service. Current liens on equipment extend through fiscal year 2010.

The increase in construction in progress of \$685,338 in fiscal year 2006 represents the amount of capital expenditures for new projects of \$935,183 net of capital assets placed in service of \$249,845.

During fiscal year 2005, Michigan Radio commenced a capital project of approximately \$1,300,000 to construct a tower and transmitter in west Michigan on land in Barry County purchased by the University in fiscal year 2004 for this purpose. This project will be partially funded by PTFP and other capital grants and gifts. The land purchased by the University for this project is reflected as a capital asset transfer in fiscal year 2006.

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Notes to Financial Statements--Continued

Note 5--Lease Arrangements

Michigan Radio is obligated under various noncancelable operating leases for facilities. Rental expenses for operating leases totaled \$202,208 for the year ended June 30, 2006. The future minimum rental payments at June 30, 2006, required in connection with operating leases that have initial or remaining noncancelable terms in excess of one year, are as follows:

2007	\$ 170,494
2008	\$ 168,059
2009	\$ 160,180
2010	\$ 159,463
2011	\$ 159,463
2012-2013	\$ 186,041

Note 6--Retirement Plan

Michigan Radio participates in the University's retirement plan, a defined contribution retirement plan through the Teachers Insurance and Annuity Association - College Retirement Equities Fund ("TIAA-CREF") and Fidelity Management Trust Company ("FMTC") mutual funds, for all qualified employees. All regular and supplemental staff are eligible to participate in the plan based upon age and service requirements. Participants maintain individual contracts with TIAA-CREF, or accounts with FMTC, and are fully vested.

Eligible employees generally contribute 5 percent of their pay and Michigan Radio generally contributes an amount equal to 10 percent of employees' pay to the plan. Participants may elect to contribute additional amounts to the plan within specified limits that are not matched by Michigan Radio contributions. Contributions and covered payroll under the plan (excluding participants' additional contributions) are summarized for the year ended June 30, 2006 as follows:

Michigan Radio contributions	\$ 180,332
Employee contributions	\$ 88,877
Payroll covered under plan	\$ 1,991,059
Total payroll	\$ 2,220,093

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Notes to Financial Statements--Continued

Note 7--Postemployment Benefits

In addition to providing pension benefits, the University and Michigan Radio provide certain health care benefits and other postemployment benefits for retired employees. Substantially all of Michigan Radio's employees may become eligible for those benefits if they reach retirement age while working for the University. The University and Michigan Radio recognize the cost of providing these benefits on a pay-as-you-go basis. Michigan Radio's allocated portion of this cost, which is included in operating expenses, totaled approximately \$35,000 for the year ended June 30, 2006.

Certain organizations are currently required to record the estimated present value of postemployment benefits as a liability in their financial statements. Michigan Radio is not required to do so at this time. Based on current actuarial assumptions and presuming a continuation of the current level of benefits, the value of those benefits is estimated at \$1,236,000 at June 30, 2006.

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, issued in June 2004, calls for the measurement and recognition of the cost of other postemployment benefits ("OPEB") during the periods when employees render their services. This statement also establishes more comprehensive disclosure for OPEB obligations. OPEB refers to postemployment benefits other than pension benefits and includes postemployment health care benefits and other types of postemployment benefits if provided separate from a pension plan. The University and Michigan Radio are required to implement this statement in fiscal year 2008, which will result in an increase in liabilities and a decrease in net assets to reflect the actuarially determined liability for OPEB. This statement provides for various methods of calculating and recording the OPEB liability; accordingly, the liability recorded by the University and Michigan Radio upon implementation may differ from current estimates.

**Report of Independent Auditors
on Supplementary Information**

The Regents of the University of Michigan

Our report on the audit of the financial statements of WUOM/WVGR/WFUM-FM as of June 30, 2006 and the year then ended appears on page 1. This audit was conducted for the purpose of forming an opinion on the financial statements, taken as a whole, which are set forth on pages 12 through 23, inclusive. The supplementary information included herein on page 25 is presented for purposes of additional analysis and is not a required part of the financial statements. The supplementary 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.

PricewaterhouseCoopers LLP

February 14, 2007

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**Schedule of Functional Expenses
For the Year Ended June 30, 2006**

	<u>Program Services</u>			<u>Supporting Services</u>			<u>Total Expenses</u>
	<u>Programming and Production</u>	<u>Engineering</u>	<u>Total Program Services</u>	<u>Development</u>	<u>Management and General</u>	<u>Total Supporting Services</u>	
Salaries, payroll taxes and employee benefits	\$ 1,286,854	\$ 249,793	\$ 1,536,647	\$ 677,166	\$ 550,827	\$ 1,227,993	\$ 2,764,640
Program fees	1,004,683	55	1,004,738				1,004,738
Depreciation and amortization	170,343	106,394	276,737	58,928	40,029	98,957	375,694
Indirect administrative support	196,125	40,407	236,532	79,530	42,868	122,398	358,930
Professional services	145,753	28,007	173,760	61,211	15,447	76,658	250,418
Equipment and space rental	81,796	66,857	148,653	35,572	17,983	53,555	202,208
Advertising	2,904	115	3,019	160,091		160,091	163,110
Supplies	33,205	61,523	94,728	42,860	4,011	46,871	141,599
Travel and conferences	52,030	19,008	71,038	33,222	3,183	36,405	107,443
Telecommunications	37,704	20,363	58,067	17,714	5,047	22,761	80,828
Repairs and maintenance	21,757	35,760	57,517	6,389	3,168	9,557	67,074
Utilities	30,439	10,795	41,234	10,607	6,892	17,499	58,733
Postage and freight	871	822	1,693	50,413	141	50,554	52,247
Surveys and ratings	47,882		47,882				47,882
Memberships and dues	35,517	62	35,579	7,100	300	7,400	42,979
Other	17,424	22,172	39,596	42,743	1,958	44,701	84,297
Total Operating Expenses	<u>\$ 3,165,287</u>	<u>\$ 662,133</u>	<u>\$ 3,827,420</u>	<u>\$ 1,283,546</u>	<u>\$ 691,854</u>	<u>\$ 1,975,400</u>	<u>\$ 5,802,820</u>