

NORTH CAROLINA PUBLIC RADIO - WUNC

**A Public Telecommunications Entity
Operated by The University of
North Carolina at Chapel Hill**

AUDITED FINANCIAL STATEMENTS

**FOR THE YEAR ENDED JUNE 30, 2011
(With Comparative Totals for the
Year Ended June 30, 2010)**

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INDEPENDENT AUDITOR'S REPORT

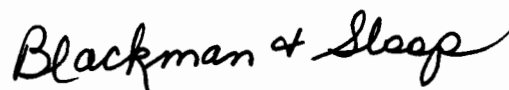
North Carolina Public Radio - WUNC
The University of North Carolina at Chapel Hill
Chapel Hill, North Carolina

We have audited the accompanying statement of net assets of North Carolina Public Radio - WUNC (the Station), a public telecommunications entity operated by The University of North Carolina at Chapel Hill, as of June 30, 2011, and the related statements of revenues, expenses, and changes in net assets, cash flows, and functional expenses for the year 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 audit. The prior year summarized comparative information has been derived from the Station's 2010 financial statements and, in our report dated November 22, 2010, we expressed an unqualified opinion on those financial statements.

We conducted our audit 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Station's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of North Carolina Public Radio - WUNC as of June 30, 2011, and the changes in net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is not a required part of the basic 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 required supplementary information. However, we did not audit this information and express no opinion thereon.



Chapel Hill, North Carolina
November 28, 2011

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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A discussion and analysis of North Carolina Public Radio - WUNC (the Station) is designed to (a) assist the reader in focusing on significant financial issues; (b) provide an overview of the Station's financial activities; and (c) identify changes in the Station's financial position (i.e., its ability to address the next year's challenges).

Since the Management's Discussion and Analysis (MD&A) is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the Station's financial statements (beginning on page 7).

Financial Statements

The Statement of Net Assets provides a snapshot of the Station's financial position as of the end of the fiscal year.

The Statement of Revenues, Expenses, and Changes in Net Assets describes the results of operations and other non-operating revenues and expenses for the fiscal year, and shows how those results increase or decrease net assets for the Station as a whole.

The Statement of Cash Flows describes the sources of cash and the expense categories to which those funds were directed. The statement includes cash acquired during the current year, and funds that have been held in reserve from operating surpluses in previous years.

The Statement of Functional Expenses provides an overview of spending by category in Program Services (i.e., the direct expenses of providing programming that is broadcast on the Station) and Supporting Services (i.e., the expenses associated with management, fundraising, maintenance, and other services required for the professional operation of the Station.)

Overview of the Station's Financial Activities

In Fiscal Year 2010-2011, North Carolina Public Radio - WUNC maintained its commitment to protect the station's core mission of providing quality news and programming while living within the station's means. Our budgeting process held expenses at an operating level of maximum efficiency.

The station's overall cash increased \$262,367 from \$1,739,871 to \$2,002,238. This was a direct result of careful budgeting and expenditures, as well as exceeding fundraising goals, including the new 'sustainer' program where individuals contribute on an ongoing monthly basis. This increase in cash improves the station's financial position, allowing a comfortable cushion when weathering difficult economic times. Strong community support from our listeners, major donors, underwriters, community advisory board, plus WUNC staff and the university all have contributed to this success.

At fiscal year ending June 30, 2011, the assets of North Carolina Public Radio exceed our liabilities by \$7,102,914 (total net assets). The total of unrestricted net assets (\$1,690,949) plus time restricted net assets (\$1,644,418) equals \$3,335,367, which may be used toward the station's ongoing expenses and represents approximately 50% of total cash operating expenses.

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Overview of the Station's Financial Activities (Continued)

In FY 2010-2011 construction of a microwave link transmission continued. This will enhance signal communications from our American Tobacco studios in Durham to the main studios in Chapel Hill and provide a more cost efficient method of connection between our two sites.

Condensed Statements of Net Assets as of June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>	<u>Variance</u>
<u>Assets</u>			
Other Assets	\$ 4,031,847	\$ 2,489,286	\$ 1,542,561
Capital Assets	<u>3,581,246</u>	<u>3,881,376</u>	<u>(300,130)</u>
Total Assets	<u>\$ 7,613,093</u>	<u>\$ 6,370,662</u>	<u>\$ 1,242,431</u>
<u>Liabilities</u>			
Current Liabilities	<u>\$ 510,179</u>	<u>\$ 587,946</u>	<u>\$ (77,767)</u>
<u>Net Assets</u>			
Invested in capital assets, net of related debt	3,581,246	3,881,376	(300,130)
Unrestricted	1,690,949	1,517,132	173,817
Restricted	<u>1,830,719</u>	<u>384,208</u>	<u>1,446,511</u>
Total Net Assets	<u>7,102,914</u>	<u>5,782,716</u>	<u>1,320,198</u>
Total Liabilities and Net Assets	<u>\$ 7,613,093</u>	<u>\$ 6,370,662</u>	<u>\$ 1,242,431</u>

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Overview of the Station's Financial Activities (Continued)

	<u>2011</u>	<u>2010</u>	<u>Variance</u>
<u>Revenues</u>			
Contributions	\$ 7,762,655	\$ 6,375,642	\$ 1,387,013
Corporation for Public Broadcasting grants	545,201	513,623	31,578
Other grants	50,000	50,000	-
Other revenue	<u>436,438</u>	<u>252,918</u>	<u>183,520</u>
Total revenues	<u>8,794,294</u>	<u>7,192,183</u>	<u>1,602,111</u>
<u>Expenses</u>			
Program services:			
Programming and production	3,439,702	3,198,138	241,564
Broadcasting	1,516,553	1,545,723	(29,170)
Public information	16,694	-	16,694
Supporting services:			
Management and general	828,943	840,488	(11,545)
Fundraising	1,608,654	1,515,657	92,997
Income tax expense	62,692	50,682	12,010
Loss on disposal of property	<u>858</u>	<u>-</u>	<u>858</u>
Total expenses	<u>7,474,096</u>	<u>7,150,688</u>	<u>323,408</u>
Changes in net assets	<u>\$ 1,320,198</u>	<u>\$ 41,495</u>	<u>\$ 1,278,703</u>

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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Changes in the Station's Financial Position

The majority of WUNC's budget is raised through general operating funds including listener contributions, corporate support, major donors and foundations. In spite of the challenging economic climate, North Carolina Public Radio successfully increased its cash position from \$1,739,871 to \$2,002,238.

The Station's budget is informed by an annual update of its strategic plan. In FY 2012, WUNC intends to continue building its reserves, providing the Station increased financial stability and the ability to respond to unforeseen circumstances without causing disruption to general operations.

The Station continues to be well-positioned to pursue its core business despite an uncertain economy. A loyal, stable, and increasing audience is expected to result in continuing individual donations and corporate support, which collectively will offset any increases in expenses for creating and purchasing programming.

NORTH CAROLINA PUBLIC RADIO - WUNC

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EXHIBIT A

STATEMENTS OF NET ASSETS

June 30, 2011 and 2010

	<u>ASSETS</u>	
	<u>2011</u>	<u>2010</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 2,002,238	\$ 1,739,871
Investments	15,581	11,946
Accounts receivable	223,455	263,394
Other receivables	35,492	-
Operating promises to give, net	1,644,418	341,021
Capital campaign promises to give, net	4,060	18,187
Prepaid expenses	26,343	12,717
TOTAL CURRENT ASSETS	<u>3,951,587</u>	<u>2,387,136</u>
NONCURRENT ASSETS:		
Capital assets, net	3,581,246	3,881,376
Broadcast license (net of accumulated amortization of \$259,230 and \$237,340)	80,260	102,150
TOTAL NONCURRENT ASSETS	<u>3,661,506</u>	<u>3,983,526</u>
TOTAL ASSETS	<u>\$ 7,613,093</u>	<u>\$ 6,370,662</u>
	<u>LIABILITIES AND NET ASSETS</u>	
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 39,306	\$ 105,598
Accrued salaries and vacation	470,873	482,348
TOTAL LIABILITIES	<u>510,179</u>	<u>587,946</u>
NET ASSETS:		
Invested in capital assets, net of related debt	3,581,246	3,881,376
Unrestricted	1,690,949	1,517,132
Restricted for:		
Expendable:		
Purpose restricted	186,301	43,187
Time restricted	1,644,418	341,021
TOTAL NET ASSETS	<u>7,102,914</u>	<u>5,782,716</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 7,613,093</u>	<u>\$ 6,370,662</u>

The accompanying Notes to Financial Statements are an integral part of these statements.

NORTH CAROLINA PUBLIC RADIO - WUNC

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EXHIBIT B

STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS

For the Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
OPERATING REVENUES:		
Corporation for Public Broadcasting grants	\$ 545,201	\$ 513,623
Other grants	50,000	50,000
Tower rental	190,668	184,287
Tape sales and royalties	-	15
Use of facilities	4,950	3,650
TOTAL OPERATING REVENUES	<u>790,819</u>	<u>751,575</u>
OPERATING EXPENSES:		
Program services:		
Programming and production	3,439,702	3,198,138
Broadcasting	1,516,553	1,545,723
Public information	16,694	-
Supporting services:		
Management and general	828,943	840,488
Fundraising	1,608,654	1,515,657
TOTAL OPERATING EXPENSES	<u>7,410,546</u>	<u>7,100,006</u>
OPERATING LOSS	(6,619,727)	(6,348,431)
NONOPERATING REVENUES (EXPENSES):		
Contributions	7,762,655	6,375,642
Interest income	7,672	7,028
Investment income	1,857	(374)
Other income	231,291	58,312
NET NONOPERATING REVENUES	<u>8,003,475</u>	<u>6,440,608</u>
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	<u>1,383,748</u>	<u>92,177</u>
OTHER REVENUES, EXPENSES, GAINS, OR LOSSES:		
Loss on disposal of property	(858)	-
CHANGES IN NET ASSETS BEFORE INCOME TAXES	1,382,890	92,177
INCOME TAX EXPENSE	<u>62,692</u>	<u>50,682</u>
CHANGES IN NET ASSETS	1,320,198	41,495
NET ASSETS - BEGINNING OF YEAR	<u>5,782,716</u>	<u>5,741,221</u>
NET ASSETS - END OF YEAR	<u>\$ 7,102,914</u>	<u>\$ 5,782,716</u>

The accompanying Notes to Financial Statements are an integral part of these statements.

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EXHIBIT C

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Corporation for Public Broadcasting grants	\$ 545,201	\$ 513,623
Other grants	50,000	59,000
Tower rental	190,668	184,287
Tape sales and royalties	-	15
Use of facilities	4,950	3,650
Programming and production	(3,310,700)	(3,073,067)
Broadcasting	(1,105,841)	(1,047,824)
Public information	(16,694)	-
Management and general	(794,655)	(817,565)
Fundraising	(1,394,166)	(1,290,716)
NET CASH USED BY OPERATING ACTIVITIES	<u>(5,831,237)</u>	<u>(5,468,597)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Contributions	6,036,430	5,970,601
Other nonoperating revenues	195,799	58,312
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>6,232,229</u>	<u>6,028,913</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
U.S. Department of Commerce Public Telecommunications Facilities Program grants	-	26,705
Income taxes paid	(62,692)	(50,682)
Purchases of capital assets	(81,827)	(10,909)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(144,519)</u>	<u>(34,886)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(2,521)	(3,870)
Interest on cash	7,672	7,028
Investment income	743	565
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>5,894</u>	<u>3,723</u>
NET INCREASE IN CASH	262,367	529,153
CASH AT BEGINNING OF YEAR	<u>1,739,871</u>	<u>1,210,718</u>
CASH AT END OF YEAR	<u>\$ 2,002,238</u>	<u>\$ 1,739,871</u>
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating loss	\$ (6,619,727)	\$ (6,348,431)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation	330,601	366,579
Amortization	21,890	21,890
In-kind expenses	476,894	488,786
Increase (decrease) in cash arising from changes in assets and liabilities:		
Other receivables	-	9,000
Prepaid expenses	(13,626)	3,408
Accounts payable and accrued expenses	(15,794)	(10,168)
Accrued salaries and vacation	(11,475)	339
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (5,831,237)</u>	<u>\$ (5,468,597)</u>

The accompanying Notes to Financial Statements are an integral part of these statements.

NORTH CAROLINA PUBLIC RADIO - WUNC

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EXHIBIT D

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2011
(With Comparative Totals for the Year Ended June 30, 2010)

	Program Services			Supporting Services			2010 Totals
	Programming and Production	Broadcasting	Public Information	Total Program Services	Management and General	Fundraising	
Salaries, payroll taxes, and employee benefits	\$ 1,822,899	\$ 535,980	\$ 43	\$ 2,358,922	\$ 538,691	\$ 806,345	\$ 3,703,958
Programming costs	1,029,842	-	-	1,029,842	-	-	1,029,842
Professional and contract services	377,544	17,900	9,550	404,994	183,088	339,730	927,812
Depreciation	100,006	202,075	-	302,081	12,065	16,455	330,601
Building and equipment rental	13,180	314,526	-	327,706	1,560	-	329,266
Supplies and small equipment purchases	2,324	73,976	6,101	82,401	28,722	98,830	155,249
Postage	5,507	1,093	-	6,600	13,545	127,904	209,953
Telephone	34,931	78,264	-	113,195	420	5,883	148,049
Utilities	-	119,366	-	119,366	-	-	119,498
Meetings and amenities	1,214	-	-	1,214	468	115,362	119,366
Other communications	8,120	97,885	-	106,005	-	-	117,044
Advertising and promotion	934	-	1,000	1,934	3,140	51,275	106,005
Dues, subscriptions, and memberships	17,127	606	-	17,733	20,779	17,003	56,349
Repairs and maintenance	-	38,945	-	38,945	-	-	55,515
Travel	12,758	3,380	-	16,138	7,209	11,867	38,945
Amortization	-	21,890	-	21,890	-	-	35,214
Maintenance contracts	-	9,191	-	9,191	-	12,502	21,890
Insurance	4,000	1,476	-	5,476	12,890	-	21,693
Other expenses	9,316	-	-	9,316	-	-	18,366
Printing	-	-	-	-	6,366	1,498	9,316
Cultivation	-	-	-	-	-	4,000	7,864
TOTAL EXPENSES	\$ 3,439,702	\$ 1,516,553	\$ 16,694	\$ 4,972,949	\$ 828,943	\$ 1,608,654	\$ 7,410,546
							\$ 7,100,006

The accompanying Notes to Financial Statements are an integral part of these statements.

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NATURE OF ACTIVITIES

North Carolina Public Radio - WUNC (the Station) is operated by The University of North Carolina at Chapel Hill. Administrative offices and studio facilities are located in the Goodmon Building on the Friday Continuing Education Center campus. Studio facilities are also located in Durham and Greensboro, North Carolina. Additional broadcasting equipment is located at the University of North Carolina Center for Public Television transmitting stations in Chatham County, Rocky Mount, and Columbia, North Carolina.

SIGNIFICANT ACCOUNTING POLICIES

The Station follows Financial Accounting Standards Board Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements.

A. Basis of Accounting.

The financial statements of the Station are prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recognized when the obligation is incurred.

The Station reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, restricted net assets are reclassified to unrestricted net assets.

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

B. Cash and Cash Equivalents.

Cash and cash equivalents consist of monies on deposit with the University of North Carolina at Chapel Hill Temporary Investment Pool, and the State Treasurer Short-Term Investment Fund. At times cash and cash equivalents deposits may be in excess of insured amounts. The Station has not experienced any financial loss related to such deposits.

C. Investments.

Investments are stated at their fair market value. Donated securities and real estate are recorded at their fair market value at the date of gift.

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SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Accounts Receivable.

Accounts receivable are recorded at their net realizable value. The Station uses the reserve method to account for bad debts on accounts receivable. No allowance has been provided given that management of the Station considers accounts receivable fully collectible based on their composition and historical collection experience.

E. Promises to Give.

Unconditional promises to give are recognized as support and assets in the period received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. An allowance for uncollectible promises to give is based on historical collection experience.

F. Capital Assets.

Capital assets are recorded at cost, and donated capital assets are recorded at fair market value at the date of the gift. Property and equipment are capitalized if their life is expected to be greater than one year and their cost is \$5,000 or greater. Depreciation is computed over estimated useful asset lives ranging from four to forty years using the straight-line method. Maintenance, repairs, and small equipment purchases are charged to expense when incurred.

G. Broadcasting Licenses.

Broadcasting licenses are recorded at cost. Amortization is computed over an estimated useful life of fifteen years using the straight-line method.

H. Classification of Net Assets.

Invested in Capital Assets, Net of Related Debt: Invested in capital assets, net of related debt represents the Station's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Restricted Net Assets: Restricted net assets include resources for which the Station is legally or contractually obligated to spend in accordance with purpose or time restrictions imposed by external third parties.

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SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Classification of Net Assets (Continued).

Unrestricted Net Assets: Unrestricted net assets are not subject to externally imposed stipulations pertaining to their use. Unrestricted net assets are used for the general operations of the Station and may be used at the discretion of the governing board to meet current expenses for any purpose.

I. Classification of Revenues.

The Station has classified its revenue as either operating or nonoperating revenues according to the following criteria:

Operating revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as Federal and nongovernmental grants and contracts, royalty income, and rental income.

Non-operating revenues: Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as gifts, and interest income.

J. University of North Carolina at Chapel Hill Support.

The University of North Carolina at Chapel Hill provides indirect administrative support. This support is in the form of assistance, guidance, and service in areas of management, accounting, budget, legal, purchasing, and physical plant operations. These services are provided without direct cost to the Station. The fair value of these services is significant; however, they are not reported in the statement of revenues, expenses and changes in net assets. Fair value is computed by a formula using rates applied to relevant cost pools. For the years ended June 30, 2011 and 2010, the fair value of indirect administrative support was approximately \$718,000 and \$676,000, respectively. The University of North Carolina at Chapel Hill provides electrical services that are included in the statement of revenues, expenses, and changes in net assets of \$32,285 and \$37,387, for the years ended June 30, 2011 and 2010, respectively.

K. Income Taxes.

The Station is a constituent department of The University of North Carolina at Chapel Hill, which is a branch of the North Carolina state government. It is therefore exempt from federal and state income taxes except for taxes associated with unrelated business income.

L. Advertising Costs.

Advertising costs are charged to operations when incurred. Advertising costs for the years ended June 30, 2011 and 2010, were \$56,349 and \$64,698, respectively.

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SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Estimates.

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

PROMISES TO GIVE

Promises to give related to operations for the years ended June 30, 2011 and 2010, are as follows:

	<u>2011</u>	<u>2010</u>
Receivable in less than one year	\$ 2,088,148	\$ 503,990
Allowance for uncollectible pledges	<u>(443,730)</u>	<u>(162,969)</u>
	<u>\$ 1,644,418</u>	<u>\$ 341,021</u>

Promises to give related to the capital campaign for the year ended June 30, 2011 and 2010, are as follows:

	<u>2011</u>	<u>2010</u>
Receivable in less than one year	\$ 4,776	\$ 21,396
Allowance for uncollectible pledges	<u>(716)</u>	<u>(3,209)</u>
	<u>\$ 4,060</u>	<u>\$ 18,187</u>

INVESTMENTS

All investments are invested in the UNC Investment Fund, LLC (the Fund). The Fund is an external investment pool that is not registered with the Securities and Exchange Commission, and does not have a credit rating. Investments are stated at fair value and are recorded on the trade or contract date. The estimated fair value of investments is based on quoted market prices, except for alternative investments for which quoted market prices are not available. The estimated fair value of alternative investments is based on valuations provided by the external investment managers adjusted for cash receipts, cash disbursements and securities distributions through June 30, 2011 and 2010. The Fund believes the carrying amount of these financial instruments is a reasonable estimate of fair value. Because alternative investments are not readily marketable, their estimated value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed. Such difference could be material.

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NOTES TO FINANCIAL STATEMENTS

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INVESTMENTS (CONTINUED)

At June 30, 2011 and 2010, the investment allocation of the Fund consists of the following:

	<u>2011</u>	<u>2010</u>
Domestic Equity	18.5%	18.0%
International Equity	15.9%	15.8%
Global Equity	12.8%	11.3%
Absolute Return	8.0%	8.8%
Domestic Fixed Income	2.6%	4.2%
Enhanced Fixed Income	7.5%	9.9%
Private Equity	17.1%	15.7%
Real Estate	7.4%	7.3%
Energy and Natural Resources	7.5%	8.0%
Cash	2.5%	0.7%
Other	0.2%	0.3%
	<u>100.0%</u>	<u>100.0%</u>

Investments are subject to the following risks:

Interest Rate Risk: Interest rate risk is the risk the Station may face should interest rate variances affect the fair value of investments. The Station does not have a formal policy that addresses interest rate risk.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Station does not have a formal policy that addresses credit risk.

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Station will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party: The Station does not have a formal policy for custodial credit risk.

Investments in the Fund at June 30 consist of following:

	<u>2011</u>	<u>2010</u>
Fair Value	\$ 15,581	\$ 11,946
Cost	17,518	14,997
Accumulated depreciation	<u>\$ (1,937)</u>	<u>\$ (3,051)</u>

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INVESTMENTS (CONTINUED)

Investment activity at June 30 is as follows:

	<u>2011</u>	<u>2010</u>
Unrealized gains (losses)	\$ 1,114	\$ (939)
Investment earnings	743	565
	<u>\$ 1,857</u>	<u>\$ (374)</u>

CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011, is as follows:

	2010 Beginning Balance	Additions	Retirements	2011 Ending Balance
Buildings	\$ 3,153,090	\$ -	\$ (2,940)	\$ 3,150,150
Leasehold improvements	1,214,350	-	-	1,214,350
Antennas/ Transmitters/ Equipment	2,782,873	31,329	-	2,814,202
Vehicle	31,855	-	-	31,855
Total	<u>7,182,168</u>	<u>31,329</u>	<u>(2,940)</u>	<u>7,210,557</u>
Less accumulated depreciation for:				
Buildings	844,913	81,073	(2,082)	923,904
Leasehold improvements	307,402	67,356	-	374,758
Antennas/ Transmitters/ Equipment	2,120,767	180,972	-	2,301,739
Vehicle	27,710	1,200	-	28,910
Total accumulated depreciation	<u>3,300,792</u>	<u>330,601</u>	<u>(2,082)</u>	<u>3,629,311</u>
Capital assets, net	<u>\$ 3,881,376</u>	<u>\$ (299,272)</u>	<u>\$ (858)</u>	<u>\$ 3,581,246</u>

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CAPITAL ASSETS (CONTINUED)

Capital asset activity for the year ended June 30, 2010, is as follows:

	2009 Beginning Balance	Additions	Retirements	2010 Ending Balance
Buildings	\$3,153,090	\$ -	\$ -	\$3,153,090
Leasehold improvements	1,214,350	-	-	1,214,350
Antennas/ Transmitters/ Equipment	2,697,266	85,607	-	2,782,873
Vehicle	31,855	-	-	31,855
Total	<u>7,096,561</u>	<u>85,607</u>	<u>-</u>	<u>7,182,168</u>
Less accumulated depreciation for:				
Buildings	763,840	81,073	-	844,913
Leasehold improvements	240,046	67,356	-	307,402
Antennas/ Transmitters/ Equipment	1,903,817	216,950	-	2,120,767
Vehicle	26,510	1,200	-	27,710
Total accumulated depreciation	<u>2,934,213</u>	<u>366,579</u>	<u>-</u>	<u>3,300,792</u>
Capital assets, net	<u>\$4,162,348</u>	<u>\$ (280,972)</u>	<u>\$ -</u>	<u>\$3,881,376</u>

COMMUNITY SERVICE GRANTS

The Corporation for Public Broadcasting (CPB) is a private, nonprofit corporation, funded by federal appropriations authorized by the United States Congress and other sources. CPB distributes annual Community Service Grants to qualifying public communications entities. These grants are used to augment the financial resources of public radio stations and thereby to enhance the quality of programming and expand the scope of public radio services. Each grant 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), (1983) Supplement. 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. The Station uses these funds for purposes relating primarily to production and acquisition of programming. Also, the grants may be used to sustain activities started with Community Service Grants awarded in prior years.

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COMMUNITY SERVICE GRANTS (CONTINUED)

The grants are reported in the accompanying financial statements as operating revenue; however, certain guidelines must be satisfied in connection with application for and use of the grants to maintain eligibility and compliance requirements. These guidelines pertain to the use of grant funds, recordkeeping, audits, financial reporting, and licensee status with the Federal Communications Commission. For the years ended June 30, 2011 and 2010, \$530,201 and \$456,536, was received and expended under these grants, respectively.

INCOME TAX EXPENSE

The Station is subject to income tax on unrelated business income. Unrelated business income is any income generated by a trade or business that is not substantially related to the exercise of the Station's exempt purpose. The Station pays unrelated business income tax on revenue generated from user fees charged to private companies renting space on broadcast towers. For the years ended June 30, 2011 and 2010, income tax expense of \$62,692 and \$50,682, is reflected in the financial statements for unrelated business income tax.

RESTRICTED NET ASSETS - EXPENDABLE

Restricted net assets at June 30, 2011 and 2010, consist of the following:

	<u>2011</u>	<u>2010</u>
Purpose restricted:		
Geographic market expansion	\$ 25,850	\$ 26,700
<i>The Story</i> with Dick Gordon	2,571	8,500
American Tobacco Historic District	99	4,859
New Ventures Fund- <i>Marketplace</i> Bureau	986	3,128
Programming costs	<u>156,795</u>	<u>-</u>
Total purpose restricted	186,301	43,187
Time restricted:		
Unrestricted promises to give	<u>1,644,418</u>	<u>341,021</u>
Restricted net assets-expendable	<u>\$ 1,830,719</u>	<u>\$ 384,208</u>

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RETIREMENT PLAN

Each permanent full-time employee, as a condition of employment, is a member of either the Teacher's and State Employees Retirement System of North Carolina, (the "System") or the Optional Retirement Program (the "Program"). The System is a cost sharing, multiple-employer defined benefit pension plan established by the North Carolina General Statutes and administered by the State. The policy of the Station is to fund its portion of pension costs accrued for this System as determined by the State. Contributions to the plan are based on a percentage of the employee's salary. The contributions to the plan totaled \$180,182 and \$150,651, for the years ended June 30, 2011 and 2010, respectively. The Program is a defined contribution retirement plan that provides retirement benefits with options for payments to beneficiaries in the event of the participant's death. Employer and member contributions are set each year by the North Carolina General Assembly. Contributions to this plan totaled \$123,906 and \$135,109, for the years ended June 30, 2011 and 2010, respectively.

NTIA/PTFP GRANT

The Station received grants from the National Telecommunications and Information Administration/Public Telecommunications and Facilities Program (NTIA/PTFP) to be used for the capital upgrade of its transmissions facilities and equipment. As part of the grant agreement, the United States Department of Commerce maintains a priority reversionary interest in equipment purchased with these funds for a ten-year period from the commencement date. The Federal interest is secured with a lien under the Uniform Commercial Code filed with the North Carolina Secretary of State. Liens in place as of June 30, 2011, are as follows:

<u>Commencement Date</u>	<u>Location</u>	<u>Amount Expended</u>
October 28, 2002	Rocky Mount, NC	\$ 13,504
September 29, 2004	Manteo, NC	\$ 219,185
September 28, 2006	Chapel Hill, NC	\$ 67,001
May 2, 2006	Pittsboro, NC	\$ 58,572
May 24, 2006	Chapel Hill, NC	\$ 9,979
December 8, 2006	Rocky Mount, NC	\$ 44,249
January 31, 2007	Rocky Mount, NC	\$ 9,314
October 1, 2007	Chapel Hill, NC	\$ 26,705

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CONTRIBUTED SERVICES AND FACILITIES

The Station recognizes donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. During the year, the Station received significant amounts of professional services in exchange for underwriting recognition on air. For the years ended June 30, 2011 and 2010, the contributed services recorded in the financial statements are \$265,115 and \$307,207, respectively. These services consist primarily of advertising, maintenance services, hospitality, and equipment.

During the years ended June 30, 2011 and 2010, the Station received significant amounts of personal services from volunteers. These services did not meet the requirements above for recognition in the financial statements.

The Station received donated facilities in Durham and Greensboro in the amounts of \$211,779 and \$205,779, for the years ended June 30, 2011 and 2010, respectively.

COMMITMENTS

The Station entered into two separate use agreements with The University of North Carolina at Chapel Hill Foundation, Inc. (Foundation) for space in the American Tobacco Historic District in Durham, North Carolina, and for space in Greensboro, North Carolina. Under these agreements, the Foundation makes available and grants exclusive use of the space in exchange for a usage fee for all costs incurred by the Foundation under the leases. The Foundation's leases for the space terminate in May 2015 and June 2013, and include options to renew for a period of five years each. The Foundation is responsible for operating costs for the space, which are estimated at the beginning of the year and then reconciled to actual operating costs. The Station occupies these spaces in exchange for underwriting recognition on air. These amounts were \$211,779 and \$205,779, for the years ended June 30, 2011 and 2010, respectively.

The Station is obligated under a lease agreement for ground space at a tower in Rocky Mount, North Carolina. The lease commenced January 2008 and expires December 2017. Monthly rent, which is currently \$1,420, is increased annually by three percent. Rent expense amounted to \$16,798 and \$16,309, for the years ending June 30, 2011 and 2010, respectively. Minimum future payments are as follows:

<u>Year Ending June 30,</u>	
2012	\$ 17,298
2013	17,820
2014	18,354
2015 and thereafter	<u>68,616</u>
	<u>\$ 122,088</u>

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PROGRAMMING COSTS

Programming costs consist of the following for the years ended June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
National Public Radio	\$ 794,428	\$ 748,925
American Public Media	112,442	108,626
Public Radio International	98,373	87,977
Other	24,599	16,977
	<u>\$ 1,029,842</u>	<u>\$ 962,505</u>

SUBSEQUENT EVENTS

Management has evaluated subsequent events for recognition or disclosure through November 28, 2011, which was the date that the financial statements were available to be issued. Subsequent to year-end, the Station was awarded a \$496,341 Community Service Grant by CPB for fiscal year 2012.