

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, 2006
(With Comparative Totals for the
Year Ended June 30, 2005)**

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BLACKMAN & SLOOP, CPAs, P.A.

Certified Public Accountants
1414 Raleigh Road, Suite 300
Chapel Hill, North Carolina 27517
Telephone: 919-942-8700

INDEPENDENT AUDITOR'S REPORT

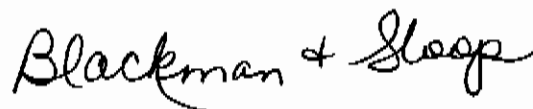
North Carolina Public Radio - WUNC
The University of North Carolina
at Chapel Hill
Chapel Hill, North Carolina

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, 2006, 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 2005 financial statements and, in a report dated October 11, 2005, 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, 2006, and the changes in financial position 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 1, 2006

NORTH CAROLINA PUBLIC RADIO - WUNC
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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 activity; and (c) identify changes in the Station's financial positions (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 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 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 Activity

In fiscal year 2006, North Carolina Public Radio continued its 3-year capital campaign entering the public phase in January 2006. The total goal of the campaign was increased to \$3.25 million, reflecting the addition of a new national program venture, *The Story* with Dick Gordon, as well as existing initiatives (new ventures fund for programming, construction of new broadcasting facilities in Durham, NC, expansion of news bureaus, and improvements to existing equipment and production facilities). Through fiscal year 2006, a cumulative total of \$2.4 million in pledges was recorded as promises to give. A cumulative total of \$1.7 million in pledge payments was received towards these initiatives.

The Station receives continuing counsel on the campaign from experienced, proven consultants, and volunteer leadership through its capital campaign committees (Honorary Co-Chairs, Steering and Corporate).

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Overview of the Station's Financial Activity (Continued)

In fiscal year 2006, North Carolina Public Radio successfully completed construction of new broadcast studios in its donated American Tobacco Campus (Durham, NC) facilities. Total cost for the leasehold improvements and new broadcast equipment totaled \$1.8 million. In addition, the Station made strategic investments in broadcast facilities and equipment upgrades with the installation of new analog and digital transmitters for WUNC in Chapel Hill and affiliate station WRQM in Rocky Mount. The Station also upgraded studio equipment and satellite distribution equipment at its Chapel Hill headquarters. Funding was supported by the capital campaign, federal grant programs, including the Public Telecommunications and Facilities Program (PTFP) and the Corporation for Public Broadcasting (CPB), as well as Station reserves.

The Station also continued to pay down its debt stemming from the construction of the Station's building. This year, the Station made payments of \$70,000, including \$65,000 for reduction of principal. The remaining debt is \$86,046, and the Station intends to make a similar payment to reduce the principal in fiscal year 2007. The station maintained expenditures within operational budgets, with revenue falling 3% below anticipated projections.

Condensed Statements of Net Assets as of June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>	<u>Variance</u>
<u>Assets</u>			
Other Assets	\$ 3,043,835	\$ 5,281,893	\$ (2,238,058)
Capital Assets	5,232,647	3,806,977	1,425,670
Total Assets	<u>\$ 8,276,482</u>	<u>\$ 9,088,870</u>	<u>\$ (812,388)</u>
<u>Liabilities</u>			
Current Liabilities	\$ 380,690	\$ 728,843	\$ (348,153)
Long-term Liabilities	454,997	375,245	79,752
Total Liabilities	<u>835,687</u>	<u>1,104,088</u>	<u>(268,401)</u>
<u>Net Assets</u>			
Invested in capital assets, net of related debt	5,146,601	3,655,832	1,490,769
Unrestricted	1,380,402	3,172,755	(1,792,353)
Restricted	913,792	1,156,195	(242,403)
Total Net Assets	<u>7,440,795</u>	<u>7,984,782</u>	<u>(543,987)</u>
Total Liabilities and Net Assets	<u>\$ 8,276,482</u>	<u>\$ 9,088,870</u>	<u>\$ (812,388)</u>

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Overview of the Station's Financial Activity (Continued)

	<u>2006</u>	<u>2005</u>	<u>Variance</u>
<u>Revenues</u>			
Contributions	\$ 6,505,820	\$ 6,627,346	\$ (121,526)
Corporation for Public Broadcasting grants	441,584	414,428	27,156
U.S. Department of Commerce Public Telecommunications Facilities Program grant	97,259	90,816	6,443
Corporation for Public Broadcasting digital upgrade grant	70,405	37,151	33,254
Other revenue	311,413	242,151	69,262
 Total revenues	 <u>7,426,481</u>	 <u>7,411,892</u>	 <u>14,589</u>
<u>Expenses</u>			
Program services			
Programming and production	3,700,189	2,612,966	1,087,223
Broadcasting	1,392,799	975,721	417,078
Program information	110,886	139,005	(28,119)
Supporting services			
Management and general	1,042,217	1,042,228	(11)
Fundraising	1,683,300	1,167,728	515,572
Income tax expense	41,077	47,154	(6,077)
 Total expenses	 <u>7,970,468</u>	 <u>5,984,802</u>	 <u>1,985,666</u>
 Change in net assets	 <u>\$ (543,987)</u>	 <u>\$ 1,427,090</u>	 <u>\$ (1,971,077)</u>

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Changes in the Station's Financial Position

The Station continues to be well positioned to pursue its core business. A stable audience is expected to result in continued individual donations and corporate support, which is anticipated to offset any increases in expenses for creating and purchasing programming.

In addition to capital campaign funding and federal grants, the Station used cash reserves to support the completion of the Durham studios, capital upgrades and other non-recurring expenditures. In fiscal year 2007, WUNC intends to build reserves, to enable the station to respond to unforeseen circumstances without causing disruption to general operations. Budgets and expense reports are reviewed quarterly to adjust spending to revenue. The Station's budget is formed by an annual update of its strategic plan.

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EXHIBIT A

STATEMENTS OF NET ASSETS

June 30, 2006 and 2005

	<u>ASSETS</u>	
	<u>2006</u>	<u>2005</u>
CURRENT ASSETS:		
Cash	\$ 1,643,210	\$ 3,777,711
Investments	68,099	207,394
Accounts receivable	321,685	335,966
Grants receivable	-	69,640
Operating promises to give, net	130,741	104,802
Capital campaign promises to give, net	449,001	250,494
Prepaid expenses	8,074	19,008
	<u>2,620,810</u>	<u>4,765,015</u>
NONCURRENT ASSETS:		
Capital campaign promises to give, net	233,316	305,279
Capital assets, net	5,232,647	3,806,977
Broadcast license (net of accumulated amortization of \$149,781 and \$127,891)	189,709	211,599
	<u>5,655,672</u>	<u>4,323,855</u>
TOTAL ASSETS	<u>\$ 8,276,482</u>	<u>\$ 9,088,870</u>
	<u>LIABILITIES AND NET ASSETS</u>	
CURRENT LIABILITIES:		
Deferred revenue	\$ 97,000	\$ 78,851
Accounts payable and accrued expenses	209,420	559,252
Retainage payable	-	27,824
Long-term liabilities - current portion	74,270	62,916
	<u>380,690</u>	<u>728,843</u>
NONCURRENT LIABILITIES:		
Long-term liabilities	454,997	375,245
	<u>835,687</u>	<u>1,104,088</u>
NET ASSETS:		
Invested in capital assets, net of related debt	5,146,601	3,655,832
Unrestricted	1,380,402	3,172,755
Restricted for:		
Expendable:		
Purpose restrictions	532,568	1,051,393
Time restrictions	381,224	104,802
	<u>7,440,795</u>	<u>7,984,782</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 8,276,482</u>	<u>\$ 9,088,870</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, 2006 and 2005

	<u>2006</u>	<u>2005</u>
OPERATING REVENUES:		
Corporation for Public Broadcasting grants	\$ 441,584	\$ 414,428
Other grants	9,000	10,000
Tower rental	125,927	126,278
Tape sales and royalties	325	680
Use of facilities	4,500	7,250
TOTAL OPERATING REVENUES	<u>581,336</u>	<u>558,636</u>
OPERATING EXPENSES:		
Program services:		
Programming and production	3,700,189	2,612,966
Broadcasting	1,392,799	975,721
Program information	110,886	139,005
Supporting services:		
Management and general	1,042,217	1,042,228
Fundraising	1,683,300	1,167,728
TOTAL OPERATING EXPENSES	<u>7,929,391</u>	<u>5,937,648</u>
OPERATING LOSS	(7,348,055)	(5,379,012)
NONOPERATING REVENUES (EXPENSES):		
Contributions	6,505,820	6,627,346
Special events	89,193	-
Interest income	61,086	78,067
Investment income	25,580	18,423
Interest on capital asset - related debt	(4,901)	(6,108)
Other income	7,980	7,561
NET NONOPERATING REVENUES	<u>6,684,758</u>	<u>6,725,289</u>
(LOSS) INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	<u>(663,297)</u>	<u>1,346,277</u>
OTHER REVENUES, EXPENSES, GAINS, OR LOSSES:		
U.S. Department of Commerce Public Telecommunications Facilities Program grants	97,259	90,816
Corporation for Public Broadcasting Digital Upgrade grant	70,405	37,151
Loss on disposal of property	(7,277)	-
OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	<u>160,387</u>	<u>127,967</u>
CHANGES IN NET ASSETS BEFORE INCOME TAXES	(502,910)	1,474,244
INCOME TAX EXPENSE	<u>41,077</u>	<u>47,154</u>
CHANGES IN NET ASSETS	(543,987)	1,427,090
NET ASSETS - BEGINNING OF YEAR	<u>7,984,782</u>	<u>6,557,692</u>
NET ASSETS - END OF YEAR	<u>\$ 7,440,795</u>	<u>\$ 7,984,782</u>

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

NORTH CAROLINA PUBLIC RADIO - WUNC

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EXHIBIT C

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2006 and 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Corporation for Public Broadcasting grants	\$ 441,584	\$ 383,250
Other grants	9,000	23,648
Tower rental	121,900	154,000
Tape sales and royalties	325	680
Use of facilities	4,500	7,250
Programming and production	(3,433,186)	(2,537,729)
Broadcasting	(860,897)	(682,371)
Program information	(44,270)	(89,631)
Management and general	(915,523)	(999,921)
Fundraising	(1,465,083)	(1,027,856)
NET CASH USED BY OPERATING ACTIVITIES	(6,141,650)	(4,768,680)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Contributions	5,823,015	5,719,649
Special events	89,193	-
Other nonoperating revenues	7,980	7,561
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	5,920,188	5,727,210
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
U.S. Department of Commerce Public Telecommunications Facilities Program grants	97,259	90,816
Corporation for Public Broadcasting Digital Upgrade grant	70,405	37,151
Income taxes paid	(81,568)	(123,271)
Principal paid on capital debt	(65,099)	(63,892)
Interest paid on capital debt	(4,901)	(6,108)
Purchases of capital assets	(2,155,096)	(627,047)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(2,139,000)	(692,351)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sale (purchase) of investments	135,084	(196,412)
Interest on cash	61,086	78,067
Investment income	29,791	7,443
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	225,961	(110,902)
NET INCREASE (DECREASE) IN CASH	(2,134,501)	155,277
CASH AT BEGINNING OF YEAR	3,777,711	3,622,434
CASH AT END OF YEAR	\$ 1,643,210	\$ 3,777,711
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating loss	\$ (7,348,055)	\$ (5,379,012)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation	360,485	214,000
Amortization	21,890	21,890
In-kind expenses	548,221	354,396
Other	(413)	(562)
Increase (decrease) in cash arising from changes in assets and liabilities:		
Accounts receivable	(5,359)	33,350
Grants receivable	69,640	(55,992)
Prepaid expenses	10,934	4,246
Deferred revenue	(7,437)	24,543
Accounts payable and accrued expenses	52,239	14,891
Other liabilities	156,204	(430)
NET CASH USED BY OPERATING ACTIVITIES	\$ (6,141,651)	\$ (4,768,680)

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, 2006
(With Comparative Totals for the Year Ended June 30, 2005)

	Program Services			Supporting Services			2005 Total
	Broad- casting	Program Information	Total Program Services	Management and General	Fundraising	Supporting Services	
Salaries, payroll taxes, and employee benefits	\$ 1,636,844	\$ -	\$ 2,063,698	\$ 692,156	\$ 780,817	\$ 1,472,973	\$ 2,917,480
Programming costs	1,531,448	-	1,531,448	-	-	-	1,080,499
Professional and contract services	227,664	39,163	353,193	191,058	568,882	759,940	718,407
Depreciation	71,064	-	332,794	11,625	16,066	27,691	214,000
Supplies and small equipment purchases	26,908	2,020	158,264	32,362	98,003	130,365	276,318
Building and equipment rental	421	517	199,968	-	-	-	90,144
Advertising and promotion	40,934	69,186	110,425	49,110	4,006	53,116	131,192
Telephone	29,036	-	118,809	4,327	16,853	21,180	70,549
Travel	100,019	-	109,004	11,840	10,256	22,096	77,178
Utilities	-	-	116,161	-	-	-	84,772
Postage and freight	448	702	1,150	8,471	80,378	88,849	78,732
Meetings and amenities	11,643	1,312	12,955	4,681	34,766	39,447	42,914
Dues, subscriptions, and memberships	8,809	1,305	10,114	13,965	5,708	19,673	30,069
Repairs and maintenance	-	34,358	34,358	1,723	-	1,723	22,141
Cultivation	-	-	-	-	49,564	49,564	1,690
Amortization	-	21,890	21,890	-	-	-	21,890
Insurance	4,000	-	4,000	13,584	-	13,584	11,057
Maintenance contracts	7,040	2,887	9,927	-	6,688	6,688	19,365
Printing	-	-	-	4,315	11,313	15,628	19,269
Other communications	3,911	8,710	12,621	-	-	-	6,519
Other expenses	-	3,095	3,095	-	-	-	50
Volunteer appreciation	-	-	-	3,000	-	3,000	5,891
Architect fees	-	-	-	-	-	-	15,067
Indirect cost	-	-	-	-	-	-	2,455
TOTAL EXPENSES	\$ 3,700,189	\$ 1,392,799	\$ 5,203,874	\$ 1,042,217	\$ 1,683,300	\$ 2,725,517	\$ 5,937,648

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. On March 28, 2005, WUNC Public Radio became North Carolina Public Radio-WUNC, based on market research to highlight the station's statewide news and programming coverage. A service mark was granted in September 2005. Administrative offices and studio facilities are located in the Goodman Building on the Friday Continuing Education Center campus. Studio facilities are also located at the American Tobacco Campus in Durham, North Carolina. Additional broadcasting equipment is located at the University of North Carolina Center for Public Television transmitting station in Chatham County and in Rocky Mount and Columbia, North Carolina.

SIGNIFICANT ACCOUNTING POLICIES

Effective July 1, 2001, the Station elected to adopt the provisions of Government Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* as amended by GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus* and GASB Statement No. 38, *Certain Financial Statement Disclosures*. Statement 34 establishes financial reporting standards for all state and local governments and related entities, primarily relating to presentation and disclosure requirements. Implementation of these GASB statements impacted the format of the financial statements, presentation of net assets required, the inclusion of management's discussion and analysis as required supplementary information, and the preparation of the statement of cash flows using the direct method. The application of these accounting standards had no impact on net assets.

Statement No. 38 requires certain disclosures to be made in the notes of the financial statements concurrent with the implementation of Statement No. 34. While this Statement did not affect amounts reported in the financial statements of the Station, certain note disclosures have been added or amended.

The Station follows FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with 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.

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ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Basis of Accounting (continued).

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

B. Cash.

Cash consists of money on deposit and money invested in money market accounts, all of which are available for current use.

C. Investments.

Investments consist of money invested in the UNC Investment Fund.

D. Accounts Receivable.

The Station uses the reserve method to account for bad debts for accounts receivable. No allowance has been provided in that management of the Station considers them fully collectible.

E. Promises to Give.

Unconditional promises to give are recognized as support in the period received and as assets, decreases of liabilities, or expenses, depending on the form of benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. 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.

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ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 in which the Station is legally or contractually obligated to spend in accordance with purpose or time restrictions imposed by external third parties.

Unrestricted Net Assets: Net assets that 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, rental income, and management fees.

Nonoperating revenues: Nonoperating revenues include activities that have the characteristics of nonexchange 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 revenue, expense 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, 2006 and 2005, the fair value of indirect administrative support was approximately \$298,000 and \$244,000, respectively. The University of North Carolina at Chapel Hill provides electrical services that are included in the statement of revenue, expense, and changes in net assets of \$39,268 and \$21,711, for the years ended June 30, 2006 and 2005, respectively.

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ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. 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.

CASH

All cash balances are on deposit with the State Treasurer and are either insured or fully collateralized.

PROMISES TO GIVE

Promises to give related to operations for the years ended June 30, 2006 and 2005, are as follows:

	2006	2005
Receivable in less than one year	\$ 195,818	\$ 229,511
Allowance for uncollectible pledges	(65,077)	(124,709)
	<u>\$ 130,741</u>	<u>\$ 104,802</u>

Promises to give related to the capital campaign for the year ended June 30, 2006 and 2005, are as follows:

	2006	2005
Receivable in less than one year	\$ 467,710	\$ 260,931
Receivable in two to five years	253,434	343,624
	721,144	604,555
Discount on promises to give	(9,341)	(24,600)
Allowance for uncollectible pledges	(29,486)	(24,182)
	<u>\$ 682,317</u>	<u>\$ 555,773</u>

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INVESTMENTS

Investments at June 30, 2006 and 2005, are made up of the following:

	<u>2006</u>	<u>2005</u>
Market Value	\$ 68,099	\$ 207,394
Cost	61,330	196,414
Appreciation	<u>\$ 6,769</u>	<u>\$ 10,980</u>

Investment income at June 30, 2006 and 2005, is as follows:

	<u>2006</u>	<u>2005</u>
Realized gains	\$ 21,750	\$ 262
Unrealized (losses) gains	(4,211)	10,980
Investment earnings	8,041	7,181
	<u>\$ 25,580</u>	<u>\$ 18,423</u>

Investments at June 30, 2006 and 2005, represent funds placed in the University of North Carolina at Chapel Hill Investment Fund (the Fund). At June 30, 2006, the investment allocation of the Fund consists of 13% fixed income, 47% equities, and 40% real estate, energy, and inflation hedge investments. At June 30, 2005, the investment allocation of the Fund consists of 21% fixed income, 68% equities, and 11% real estate, energy, and inflation hedge investments. These instruments may contain elements of both credit and market risks.

The Fund utilizes selective derivative investment instruments to increase the yield and return on its investment portfolio given the available investment alternatives; to mitigate credit risk of default by a counterparty; and to control and minimize certain market risks.

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 certain alternative investments is based on valuations provided by the external investment managers adjusted for cash receipts, cash disbursements and securities distributions through June 30, 2006. 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 differences could be material.

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CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006, was as follows:

	Beginning Balance	Additions	Transfer	Retirements	2006 Ending Balance	2005 Ending Balance
Buildings	\$ 3,103,644	\$ 12,576	\$ -	\$ (9,290)	\$ 3,106,930	\$ 3,103,644
Leasehold improvements	-	786,118	360,330	-	1,146,448	-
Antennas/ Transmitters/ Equipment	1,730,462	994,738	-	(80,462)	2,644,738	1,730,462
Construction in process	360,330	-	(360,330)	-	-	360,330
Vehicle	27,055	-	-	-	27,055	27,055
Total	<u>5,221,491</u>	<u>1,793,432</u>	<u>-</u>	<u>(89,752)</u>	<u>6,925,171</u>	<u>5,221,491</u>
Less accumulated depreciation for:						
Buildings	442,531	80,328	-	(2,013)	520,846	442,531
Leasehold improvements	-	37,953	-	-	37,953	-
Antennas/ Transmitters/ Equipment	945,773	242,204	-	(80,462)	1,107,515	945,773
Vehicle	26,210	-	-	-	26,210	26,210
Total accumulated depreciation	<u>1,414,514</u>	<u>360,485</u>	<u>-</u>	<u>(82,475)</u>	<u>1,692,524</u>	<u>1,414,514</u>
Capital assets, net	<u>\$ 3,806,977</u>	<u>\$ 1,432,947</u>	<u>\$ -</u>	<u>\$ (7,277)</u>	<u>\$ 5,232,647</u>	<u>\$ 3,806,977</u>

LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2006, was as follows:

	Beginning Balance	Additions	Payments	2006 Ending Balance	2005 Ending Balance
Lines of credit with the University	\$ 151,145	\$ -	\$ (65,099)	\$ 86,046	\$ 151,145
Due to UNC-TV	-	15,000	-	15,000	-
Compensated absences	287,017	141,204	-	428,221	287,016
Total long-term liabilities	<u>438,162</u>	<u>156,204</u>	<u>(65,099)</u>	<u>529,267</u>	<u>438,161</u>
Less: current portion	<u>(62,916)</u>	<u>(11,354)</u>	<u>-</u>	<u>(74,270)</u>	<u>(62,916)</u>
	<u>\$ 375,246</u>	<u>\$ 144,850</u>	<u>\$ (65,099)</u>	<u>\$ 454,997</u>	<u>\$ 375,245</u>

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LONG-TERM LIABILITIES (CONTINUED)

The Station has received a line of credit from the University for financing of capital improvements. This internal loan may not exceed \$525,000 and must be repaid at 8% interest in ten annual equal installments. The next year's annual installment will be \$50,000, plus interest, with the remainder of \$36,046, plus interest, to be paid after fiscal year 2007. At June 30, 2006 and 2005, \$86,046 and \$151,145, respectively, had been drawn on this line of credit.

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 telecommunications entities. These grants are used to augment the financial resources of public television stations and thereby to enhance the quality of programming and expand the scope of public television 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 begun with Community Service Grants awarded in prior years.

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, record keeping, audits, financial reporting, and licensee status with the Federal Communications Commission. For the years ended June 30, 2006 and 2005, \$441,584 and \$414,428, were 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 now 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, 2006 and 2005, income tax expense of \$41,077 and \$47,154, is reflected in the financial statements for unrelated business income tax.

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RESTRICTED NET ASSETS - EXPENDABLE

Restricted net assets at June 30, 2006 and 2005, consist of the following:

	<u>2006</u>	<u>2005</u>
Purpose restricted:		
<i>The Story with Dick Gordon</i>	\$ 279,558	\$ -
New Ventures Fund- marketplace bureau	219,010	319,015
Geographic market expansion	30,000	27,500
Production cost of <i>Back Porch</i> <i>Music CD</i>	4,000	-
American Tobacco Historic District studios	-	604,507
Equipment replacement	-	100,371
Total purpose restricted	<u>532,568</u>	<u>1,051,393</u>
Time restricted:		
Promises to give	<u>381,224</u>	<u>104,802</u>
Restricted net assets-expendable	<u>\$ 913,792</u>	<u>\$ 1,156,195</u>

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 \$118,542 and \$94,363, for the years ended June 30, 2006 and 2005, 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 \$86,432 and \$59,478, for the years ended June 30, 2006 and 2005, respectively.

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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.

<u>Commencement Date</u>	<u>Location</u>	<u>Amount Expended</u>
July 1, 2001	Buxton, Manteo, & Chapel Hill, NC	\$ 117,837
January 31, 2002	Rocky Mount, NC	\$ 13,583
September 15, 2004	Manteo, NC	\$ 219,185
April 25, 2006	Chapel Hill, NC	\$ 58,572
May 17, 2006	Chapel Hill, NC	\$ 9,979

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, 2006 and 2005, the amounts recorded in the financial statements are \$372,453 and \$269,684, respectively. These services consist primarily of advertising, maintenance services, and hospitality.

During the years ended June 30, 2006 and 2005, the Station received significant amounts of personal services from volunteers. These services do not meet the requirements above for recognition in the financial statements.

The Station received donated facilities at the American Tobacco Campus and at Roanoke Island in the amounts of \$136,500 and \$63,000, for the years ended June 30, 2006 and 2005, respectively.

COMMITMENTS

The Station entered into a use agreement with The University of North Carolina at Chapel Hill Foundation, Inc. (Foundation) on December 22, 2004, for space in the American Tobacco Historic District in Durham, North Carolina. Under this agreement, 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 lease. The Foundation's lease for the space commenced on June 1, 2005 for a period of sixty months, terminating on May 31, 2010. The lease includes an option to renew for two periods of five years each. The Foundation is responsible for operating costs for the space, which are estimated

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COMMITMENTS (CONTINUED)

at the beginning of the year and then reconciled to actual operating costs. The amounts paid by the station for operating costs for the years ending June 30, 2006 and 2005 were \$40,538 and \$0, respectively. The estimated operating costs for the year ending June 30, 2007 is \$51,029.

PROGRAMMING COSTS

Programming costs consist of the following for the years ended June 30, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
National Public Radio	\$ 729,855	\$ 662,425
<i>State of Things</i> host & producer	126,735	218,288
<i>The Story with Dick Gordon</i>	236,143	-
NC Voices	158,358	-
Public Radio International	55,838	87,025
American Public Media	131,601	36,533
Graedon Enterprises, Inc.	42,118	57,027
Other	50,800	19,201
	<u>\$ 1,531,448</u>	<u>\$ 1,080,499</u>

SUBSEQUENT EVENTS

On September 1, 2006, the Station was awarded a \$558,647 Community Service Grant by CPB for fiscal year 2007.

RECLASSIFICATIONS

Certain items in the June 30, 2005, comparative financials have been reclassified to conform to the current year presentation.