

WASATCH PUBLIC MEDIA DBA KCPW

FINANCIAL STATEMENTS

Year Ended June 30, 2010



INDEPENDENT AUDITORS' REPORT

To the Board of Directors

WASATCH PUBLIC MEDIA DBA KCPW

We have audited the accompanying statement of financial position of Wasatch Public Media dba KCPW as of June 30, 2010 and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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 Wasatch Public Media dba KCPW as of June 30, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

A handwritten signature in cursive script that reads "Arthur & Associates".

Salt Lake City, Utah
December 20, 2010

WASATCH PUBLIC MEDIA DBA KCPW
STATEMENT OF FINANCIAL POSITION

June 30, 2010

ASSETS

CURRENT ASSETS	
Cash and cash equivalents	\$ 42,849
Restricted cash	343,686
Underwriting receivables, net	107,717
Grant receivable	17,500
Unconditional promises to give, net	73,774
Prepaid expenses and other assets	11,020
TOTAL CURRENT ASSETS	<u>596,546</u>
Unconditional promises to give	2,000
Property and equipment, net	91,262
Loan costs, net	15,143
Broadcast licenses	2,427,183
	<u>2,535,588</u>
TOTAL ASSETS	<u>\$ 3,132,134</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES	
Accounts payable	\$ 169,943
Accrued liabilities	14,843
TOTAL CURRENT LIABILITIES	<u>184,786</u>
LONG-TERM DEBT	<u>2,775,311</u>
NET ASSETS	
Unrestricted	147,037
Temporarily restricted	25,000
TOTAL NET ASSETS	<u>172,037</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,132,134</u>

See accompanying notes to financial statements

WASATCH PUBLIC MEDIA DBA KCPW

STATEMENT OF ACTIVITIES

Year Ended June 30, 2010

CHANGES IN UNRESTRICTED NET ASSETS	
REVENUES AND SUPPORT	
Grants	\$ 104,673
Contributions	845,195
Other income	2,830
TOTAL REVENUE AND SUPPORT	<u>952,698</u>
EXPENSES	
Programming and broadcasting	747,833
Management and general	207,832
Fundraising	275,687
TOTAL OPERATING EXPENSES	<u>1,231,352</u>
DECREASE IN UNRESTRICTED NET ASSETS	(278,654)
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS	
Contributions	<u>25,000</u>
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	<u>25,000</u>
DECREASE IN NET ASSETS	(253,654)
NET ASSETS, BEGINNING OF YEAR - RESTATED	<u>425,691</u>
NET ASSETS, END OF YEAR	<u>\$ 172,037</u>

See accompanying notes to financial statements

WASATCH PUBLIC MEDIA DBA KCPW
STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2010

	Programming and broadcasting	Management and general	Fundraising	Total
Payroll expense	\$ 227,504	\$ 56,983	\$ 151,604	\$ 436,091
Programming	268,911	-	250	269,161
Interest	119,751	33,280	44,146	197,177
Occupancy	58,267	4,171	8,024	70,462
Contract services	8,005	16,560	44,485	69,050
Office expense	27,170	20,854	13,184	61,208
Bad debts	-	56,904	-	56,904
Depreciation and amortization	19,092	5,306	7,038	31,436
Other expense	16,759	10,208	3,262	30,229
Equipment rental and maintenance	2,261	3,465	57	5,783
Advertising	-	61	3,300	3,361
Travel and meetings	113	40	337	490
	<u>\$ 747,833</u>	<u>\$ 207,832</u>	<u>\$ 275,687</u>	<u>\$ 1,231,352</u>

See accompanying notes to financial statements

WASATCH PUBLIC MEDIA DBA KCPW

STATEMENT OF CASH FLOWS

Year Ended June 30, 2010

CASH FLOWS FROM OPERATING ACTIVITIES

Increase (decrease) in net assets	\$ (253,654)
Adjustments to reconcile change in net assets to cash provided by operating activities:	
Depreciation and amortization	17,284
In-kind contributions of property	(12,776)
Amortization of loan costs	16,152
Decrease (increase) in operating assets:	
Promises to give	98,611
Underwriting receivables	3,233
Grants receivable	(17,500)
Prepaid expenses and deferred costs	(6,077)
Increase (decrease) in operating liabilities:	
Accounts payable, trade	50,793
Accrued liabilities	(7,834)
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>(111,768)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of property and equipment	<u>(708)</u>
NET CASH FLOWS FROM INVESTING ACTIVITIES	<u>(708)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Payments on long-term debt	<u>(42,689)</u>
NET CASH FLOWS FROM FINANCING ACTIVITIES	<u>(42,689)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(155,165)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>541,700</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 386,535</u>

SUPPLEMENTAL INFORMATION

Cash paid:	
Interest	\$ <u>197,177</u>
Income taxes	\$ <u>-</u>

See accompanying notes to financial statements

WASATCH PUBLIC MEDIA DBA KCPW

NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies

Nature of activities – Wasatch Public Media dba KCPW (the “Organization”) is a public service radio station whose purpose is to serve the educational, charitable, scientific and literary needs of the northern Utah community. The Organization was organized as a Utah not-for-profit corporation on September 12, 2007 to broadcast over the radio, news, talks, speeches, and other programs transmitted by radio. The Organization is funded primarily through community fundraising and underwriting contributions.

Basis of presentation – The Organization prepares its financial statements on the accrual basis of accounting and follows U.S. generally accepted accounting principles for non-profit organizations and reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted based upon the following criteria:

- **Unrestricted net assets** represent expendable funds available for operations which are not otherwise limited by donor restrictions.
- **Temporarily restricted net assets** consist of contributed funds subject to specific donor-imposed restrictions contingent upon specific performance of a future event or a specific passage of time before the Organization may spend the funds.
- **Permanently restricted net assets** are subject to irrevocable donor restrictions requiring that the assets be maintained in perpetuity usually for the purpose of generating investment income to fund current operations.

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

Cash and cash equivalents – The Organization considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Underwriting and grants receivable and promises to give – Underwriting and grants receivable and promises to give are recorded at their estimated fair value less an appropriate allowance for uncollectible amounts. Allowances are based on historical experience and management’s analysis of specific balances. An account is written off when it is determined that all collection efforts have been exhausted. Promises to give due later than one year are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using imputed interest rates applicable to the years in which promises are received. Discounts on promises to give that are measured at present value are amortized between the date the promise to give is initially recognized and the date the cash or other contributed assets are received.

WASATCH PUBLIC MEDIA DBA KCPW

NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (continued)

Property and equipment, net – Acquisitions of property and equipment in excess of \$500 and all expenditures for repairs and maintenance that materially prolong the useful lives of property and equipment are capitalized. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support. Property and equipment are stated at cost less accumulated depreciation and amortization, or if acquired by donation, at estimated fair value at the date of the donation. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation and amortization are removed from the accounts and any resulting gain or loss is reflected in the statement of activities for the period.

Depreciation and amortization is computed over the following estimated useful lives using the straight-line method:

<u>Assets</u>	<u>Useful Lives</u>
Furniture and fixtures	5 - 7 years
Broadcast equipment	5 - 15 years
Computers and office equipment	3 - 5 years
Leasehold improvements	3 - 7 years

Long-lived assets – The Organization reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. Management does not believe impairment indicators are present for the years ended June 30, 2010.

Contributions and in-kind donations – Contributions are recognized when the donor makes a promise to give that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Donations of property and equipment are recorded as support at their estimated fair market value at the date of gift. These donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use are reported as temporarily restricted support and reclassified to unrestricted net assets when placed in service.

Underwriting revenue – Revenue from underwriting that is considered nonreciprocal is recorded as contribution revenue when received or pledged.

Functional allocation of expenses – The costs of programs and supporting services have been summarized on a functional basis in the statement of activities. All direct costs are charged to the functional area they pertain to. Indirect costs are charged to

WASATCH PUBLIC MEDIA DBA KCPW

NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (continued)

programs and supporting services based on estimates made by management, taking into account the nature of the expense and how it relates to the functional area. General and administrative costs include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

Advertising costs – Advertising costs are charged to operations when incurred. Advertising expense was approximately \$3,361 for the year ended June 30, 2010.

Income taxes – The Organization qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code, and accordingly, no provision has been made for federal income tax.

Fair value of financial instruments –The Organization utilizes various methods to measure fair value of its financial instruments on a recurring basis. Accounting principles generally accepted in the United States of America establishes a hierarchy that prioritizes inputs to valuation methods. The three levels of inputs are as follows:

Level 1: inputs are quoted prices in active markets for identical assets that the reporting entity has the ability to access at the measurement date.

Level 2: inputs are other than quoted prices included within Level 1 that are observable for that asset, either directly or indirectly.

Level 3: inputs are unobservable inputs for the asset that are supported by little or no market activity and that are significant to the fair value of the underlying asset or liability.

New accounting pronouncements adopted – FASB ASC 825, Financial Instruments, (ASC 825), ASC 825-10-65, *Transition and Open Effective Date Information*, (formerly referred to as FSP FAS No. 107-1 and APB Opinion No. 28) requires disclosures about fair value of financial instruments in the financial statements. This pronouncement is effective for periods ending after June 15, 2009. The adoption did not have a material impact on the financial statements.

Effective January 1, 2009 the Organization adopted ASC 740, *Income taxes* (formerly referred to as FIN No. 48). This guidance clarifies the accounting for uncertainty in income taxes recognized in the financial statements (Note 1- Income taxes). The adoption did not have a material impact on the financial statements.

FASB ASC 855, *Subsequent Events*, (formerly referred to as SFAS No. 165), modified the subsequent event disclosure guidance and was adopted by the Organization for the year ended June 30, 2010 (Note 12).

In August 2009, the FASB issued Accounting Standards Update No. 2009-05 (ASC Update 2009-05), an update to FASB 820, *Fair Value Measurements and Disclosures*. This update provides amendments to reduce potential ambiguity in the financial reporting when measuring the fair value of liabilities. This pronouncement was effective for the Organization's year ended June 30, 2010. The adoption did not have a material impact on the financial statements.

WASATCH PUBLIC MEDIA DBA KCPW

NOTES TO FINANCIAL STATEMENTS

(2) Realization of assets

The accompanying financial statements have been prepared in conformity with U.S. generally accepted accounting principles, and assume that the Organization will continue as a going concern. As shown in the financial statements, there was a decrease in net assets of \$253,654 for the year ended June 30, 2010. Cash used in operations in 2010 totaled \$98,992. In addition, the Organization has a \$357,311 note payable due in October 2011 that is collateralized by net assets of the Organization. Notes in the amount of \$618,000 and \$1,800,000 are due in September 2012 and October 2012, respectively.

In view of these matters, realization of the assets in the accompanying balance sheet, both unrestricted and restricted, is dependent upon the continuing operations of the Organization, which in turn is dependent upon the Organization's ability to operate at a profit and generate cash from operations by controlling costs and generating sufficient revenues to cover operating expenses and interest payments. The successful implementation of a capital campaign to raise funds to pay-off the notes that are due in 2011 and 2012 is necessary to insure the future of the organization.

Management and the board of directors of the Organization continue to closely monitor the operations of the Organization. Management has projected a positive cash flow budget for the next fiscal year due to 115% increase in awarded grants and reduced expenses. To address the large payment due on the note payable, a capital campaign has been approved by the board of directors to raise the additional funds. These changes should ensure the Organization's ability to continue as a going concern.

(3) Prior period adjustment

The previously issued financial statements have been restated to correct errors in the capitalization of fixed assets acquired in the purchase of the equipment and broadcast licenses of the radio station and the recognition of underwriting revenues and related receivables as follows:

Unrestricted Net Asset Balance, June 30, 2009	\$	294,822
Record underwriting receivables in proper period		80,297
Record depreciation expense		(9,835)
Recognize deferred revenue from underwriting		51,432
Record additional property and equipment		8,975
Net Assets, June 30, 2009, as restated	\$	<u>425,691</u>

WASATCH PUBLIC MEDIA DBA KCPW

NOTES TO FINANCIAL STATEMENTS

(4) Underwriting receivables

Underwriting receivables	\$ 122,717
Less: allowance for doubtful accounts	<u>(15,000)</u>
Net underwriting receivables	<u>\$ 107,717</u>

(5) Promises to give

Promises to give due in more than one year are reflected at the present value of estimated future cash flows using a discount rate of 4%. Promises to give consisted of the following as of June 30, 2010:

Amounts due:	
1 year or less	\$ 265,776
1 - 5 years	2,000
Thereafter	-
	<u>267,776</u>
Less: allowance for doubtful pledges	<u>(192,000)</u>
Total promises to give	<u>\$ 75,776</u>

(6) Property and equipment

Cost	
Furniture and fixtures	\$ 27,719
Broadcast and tower equipment	81,687
Leasehold improvements	<u>8,975</u>
Total cost of property and equipment	118,381
Accumulated depreciation and amortization	<u>(27,119)</u>
Net property and equipment	<u>\$ 91,262</u>

Depreciation and amortization expense for the years ended June 30, 2010 was \$17,284.

(7) Broadcast licenses

Broadcast licenses consist of two FCC broadcast licenses that were purchased from an existing radio station in September 2008. The FCC licenses have an infinite life and are subject to annual impairment tests. No adjustment for impairment was made for the year ended June 30, 2010.

WASATCH PUBLIC MEDIA DBA KCPW

NOTES TO FINANCIAL STATEMENTS

(8) Long-term debt

7.0% note payable, interest only payable in monthly installments with all unpaid principal and accrued interest due October 2011. Secured by the assets of the Organization. \$ 357,311

7.0% note payable, interest only payable in monthly installments with all unpaid principal and accrued interest due October 2012. Secured by the assets of the Organization. 1,800,000

7.0% note payable, interest only payable in monthly installments with all unpaid principal and interest due September 2012. Secured by the assets of the Organization. 618,000

\$ 2,775,311

Estimated maturities of long-term debt are as follows:

2011	\$ -
2012	357,311
2013	<u>2,418,000</u>
	<u><u>\$ 2,775,311</u></u>

(9) Operating leases

The Organization leases office space, tower locations, and office equipment under operating leases with terms in excess of one year. Future minimum annual rental payments required under operating leases that have an initial or remaining non-cancelable lease term in excess of one year as of June 30, 2010, are as follows:

Years Ending June 30,

2011	\$ 38,204
2012	38,878
2013	39,272
2014	39,988
2015	32,124
Thereafter	3,856
Total minimum lease payments	<u><u>\$ 192,322</u></u>

Total rent and lease expense under operating leases with terms in excess of one year was \$40,323 for the year ended June 30, 2010.

WASATCH PUBLIC MEDIA DBA KCPW

NOTES TO FINANCIAL STATEMENTS

(10) Temporarily restricted net assets

Temporarily restricted net assets consist of amounts restricted for installation of a new satellite dish.

(11) Concentrations of credit and market risk

The Organization maintains its cash and cash equivalent balances at two financial institutions. The deposits may exceed their federally insured limits of \$250,000 established by the Federal Deposit Insurance Corporation. The Organization has not experienced any losses related to these accounts and believes it is not exposed to any significant credit risk on these balances.

Accounts and grants receivable and promises to give have concentrations of credit risk as they are due from individuals and organizations located in Utah.

(12) Subsequent events

Subsequent events were evaluated through December 20, 2010, which is the date the financial statements were available to be issued.