

## **Management's Discussion and Analysis**

This section of the University of Tennessee WUOT-FM Radio's annual financial report presents a discussion and analysis of the financial performance of WUOT-FM during the fiscal year ended June 30, 2007, with comparative information presented for the fiscal years ended June 30, 2006, and June 30, 2005. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with them. The financial statements, notes, and this discussion are the responsibility of management.

### **Using This Annual Report**

This report consists of three basic financial statements. The statement of net assets; the statement of revenues, expenses, and changes in net assets; and the statement of cash flows provide information on WUOT-FM as a whole and present a long-term view of the station's finances. The accompanying notes to the financial statements are an integral part of the financial statements and are essential to understanding the data contained in the financial statements.

### **The Statement of Net Assets**

The statement of net assets presents the financial position of the station at the end of the fiscal year and includes all assets and liabilities of the radio station. The difference between total assets and total liabilities – net assets – is an indicator of the current financial condition of the station. Assets and liabilities are generally measured using current values. Capital assets, however, are stated at historical cost less an allowance for depreciation.

Net assets are divided into three major categories. The first category, invested in capital assets, provides the station's equity in property, plant, and equipment owned by the radio station. The next asset category is restricted net assets, which is divided into two categories, nonexpendable and expendable. The corpus of nonexpendable restricted resources is only available for investment purposes. Expendable restricted net assets are available for expenditure by the station but must be spent for purposes as determined by donors that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted net assets are available to the station for any lawful purpose of the station.

### Statements of Net Assets

	<u>2007</u>	<u>2006</u>	<u>2005</u>
<b>Assets:</b>			
Current assets	\$1,360,639	\$1,129,437	\$1,285,384
Capital assets, net	204,150	330,250	318,055
Other assets	<u>110,200</u>	<u>95,559</u>	<u>88,075</u>
<b>Total assets</b>	<u>1,674,989</u>	<u>1,555,246</u>	<u>1,691,514</u>
<b>Liabilities:</b>			
Current liabilities	50,335	43,024	32,517
Noncurrent liabilities	<u>11,194</u>	<u>21,581</u>	28,520
<b>Total liabilities</b>	<u>61,529</u>	<u>64,605</u>	<u>61,037</u>
<b>Net Assets:</b>			
Invested in capital assets	204,150	330,250	318,055
Restricted – expendable	431,573	423,425	413,595
Restricted – nonexpendable	110,200	95,559	88,075
Unrestricted	<u>867,537</u>	<u>641,407</u>	<u>810,752</u>
<b>Total net assets</b>	<u>\$1,613,460</u>	<u>\$1,490,641</u>	<u>\$1,630,477</u>

Current assets consist of cash and cash equivalents and the current portion of investments. Other assets include the long-term portion of investments. The increase in current assets for FY 2007 is due to an increased distribution from the endowments, due to increased market values. The decrease in current assets for FY 2006 is due to the decrease in grants from the previous year, which effects net income.

Current liabilities include the current portion of compensated absences. Noncurrent liabilities include the long-term portion of compensated absences.

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

The statement of revenues, expenses, and changes in net assets presents the operating results of the station, as well as the nonoperating revenues and expenses. Annual state appropriations, while budgeted for operations, are considered nonoperating revenues according to accounting principles generally accepted in the United States of America.

## Statements of Revenues, Expenses, and Changes in Net Assets

	<u>2007</u>	<u>2006</u>	<u>2005</u>
<b>Operating revenues:</b>	\$ <u>          -</u>	\$ <u>          -</u>	\$ <u>          -</u>
<b>Total operating revenues</b>	<u>          -</u>	<u>          -</u>	<u>          -</u>
Operating expenses	<u>1,512,512</u>	<u>1,798,874</u>	<u>1,488,045</u>
<b>Operating loss</b>	<u>(1,512,512)</u>	<u>(1,798,874)</u>	<u>(1,488,045)</u>
 <b>Nonoperating revenues and expenses:</b>			
State appropriations	467,811	445,590	424,691
Gifts	525,307	513,930	487,012
Underwriting revenues	297,657	287,483	261,399
Community service grant	149,274	160,169	152,056
Gain (loss) on investments	<u>188,490</u>	<u>111,019</u>	<u>87,029</u>
<b>Total nonoperating revenues and expenses</b>	<u>1,628,539</u>	<u>1,518,191</u>	<u>1,412,187</u>
 <b>Income (loss) before other revenues, expenses, gains, or losses</b>	<u>116,027</u>	<u>(280,683)</u>	<u>(75,858)</u>
 <b>Other revenues, expenses, gains, or losses:</b>			
CPB digital equipment grant	-	-	75,000
PTFP facilities grant	6,459	140,214	-
Additions to permanent endowments	<u>333</u>	<u>633</u>	<u>625</u>
<b>Total other revenues, expenses, gains, or losses</b>	<u>6,792</u>	<u>140,847</u>	<u>75,625</u>
 <b>Increase (decrease) in net assets</b>	<u>122,819</u>	<u>(139,836)</u>	<u>(233)</u>
 Net assets at beginning of year	1,490,641	1,630,477	1,630,710
<b>Net assets at end of year</b>	<u>\$1,613,460</u>	<u>\$1,490,641</u>	<u>\$1,630,477</u>

During the 2007 fiscal year, a \$298,503 decrease in other operating expenses explains the majority of a net \$286,362 decrease in operating expenses.

Nonoperating revenues changed by the following amounts: state appropriations increased by \$22,221, underwriting revenue increased by \$10,174, the station's community service grant decreased by \$10,895, gifts increased by \$11,377, and investment gains increased by \$77,471.

State appropriations reported represent university-funded expenses. An increase in these expenses led to this increase. Underwriting revenues increased as there was an aggressive marketing campaign to seek underwriting revenues in 2007. Gifts were greater in the 2007 fiscal year due to an aggressive marketing and development campaign to seek new donors.

During the 2006 fiscal year, a \$51,407 increase in salaries, a \$20,884 increase in staff benefits, a \$197,939 increase in other operating expenses, and a \$40,599 increase in depreciation expense explain the net \$310,829 increase in operating expenses.

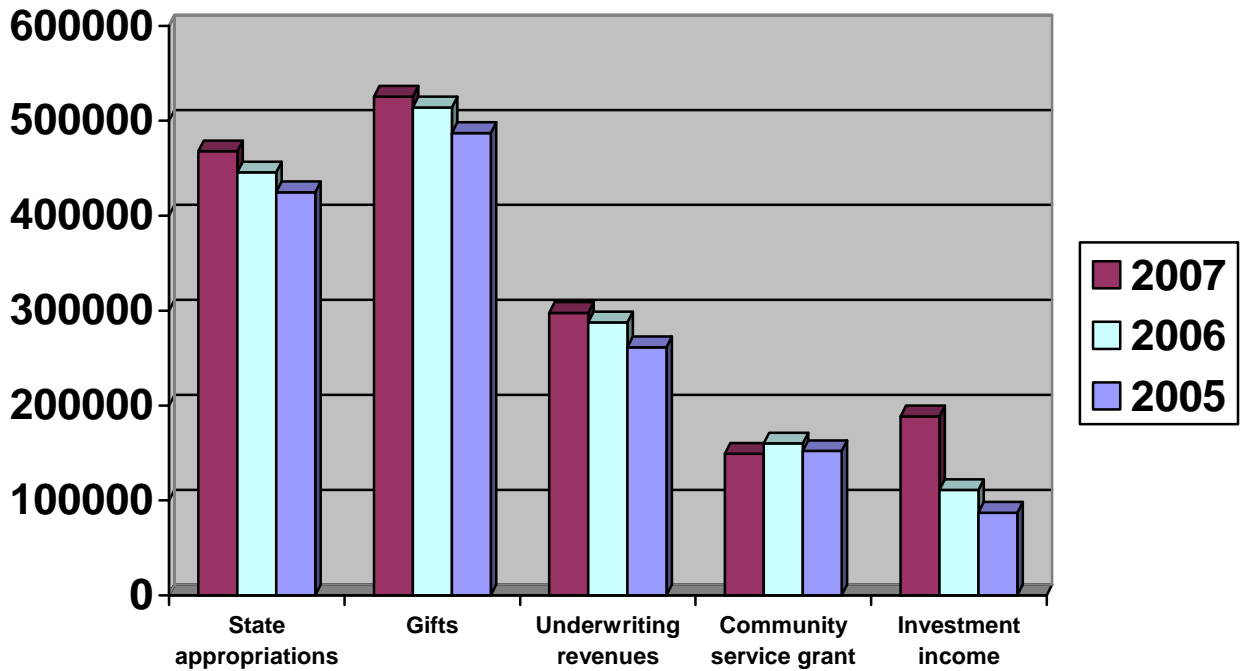
Nonoperating revenues changed by the following amounts: state appropriations increased by \$20,889, underwriting revenue increased by \$26,084, the station's community service grant increased by \$8,113, gifts increased by \$26,918, and investment gains increased by \$23,990. During the 2006 fiscal year, a grant in the amount of \$140,214 was received from the federal government for telecommunications facilities. This led to a net increase in nonoperating and other revenues totaling \$171,226.

State appropriations reported represent university-funded expenses. An increase in these expenses led to this increase. Underwriting revenues increased as there was a more aggressive marketing campaign to seek underwriting revenues in 2006. Gifts were greater in the 2006 fiscal year due to an aggressive marketing and development campaign to seek new donors.

### Revenues

The following is a graphic illustration of revenues by source (both operating and nonoperating), which were used to fund the station's operating activities for the years ended June 30, 2007, June 30, 2006, and June 30, 2005.

## Revenues by Source



For the 2007 fiscal year, the largest percentage of WUOT-FM Radio's revenue was received from listener support - 32 percent from gifts and 18 percent from underwriting. Another major source of funding was state appropriations, which represented 29 percent of total revenue during the year ended June 30, 2007.

For the 2006 fiscal year, the largest percentage of WUOT-FM Radio's revenue was received from listener support - 31 percent from gifts and 17 percent from underwriting. Another major source of funding was state appropriations, which represented 27 percent of total revenue during the year ended June 30, 2006.

### Expenses

Operating expenses can be displayed in two formats, natural classification and functional classification. Both formats are displayed below.

### 2007 Natural Classification

<b>Functional Classification</b>	<b><u>Salaries</u></b>	<b><u>Benefits</u></b>	<b><u>Other Operating</u></b>	<b><u>Depreciation</u></b>	<b><u>Total</u></b>
Programming & production	\$ 228,662	\$ 93,869	\$ 398,206	\$ -	\$ 720,737
Broadcasting	51,534	21,032	114,399	-	186,965
Program information & promotion	33,315	18,231	1,352	-	52,898
Management & general	163,806	53,749	64,723	-	282,278
Fund raising & membership development	29,813	13,203	56,602	-	99,618
Underwriting & grant solicitation	40,589	11,770	-	-	52,359
Depreciation	-	-	-	117,657	117,657
Total Expenses	<u>\$ 547,719</u>	<u>\$ 211,854</u>	<u>\$ 635,282</u>	<u>\$ 117,657</u>	<u>\$1,512,512</u>

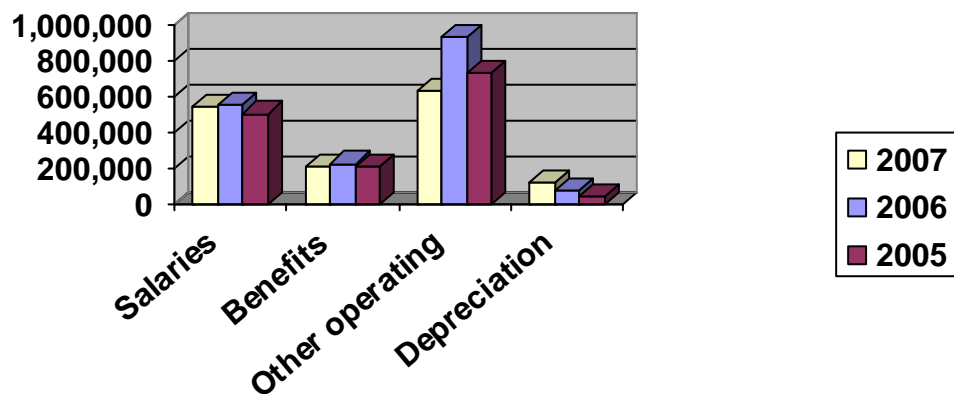
### 2006 Natural Classification

<b>Functional Classification</b>	<b><u>Salaries</u></b>	<b><u>Benefits</u></b>	<b><u>Other Operating</u></b>	<b><u>Depreciation</u></b>	<b><u>Total</u></b>
Programming & production	\$ 231,102	\$ 104,061	\$ 366,103	\$ -	\$ 701,266
Broadcasting	49,298	21,748	416,969	-	488,015
Program information & promotion	23,759	15,183	1,200	-	40,142
Management & general	153,603	54,120	41,916	-	249,639
Fund raising & membership development	63,173	19,279	84,121	-	166,573
Underwriting & grant solicitation	35,818	13,243	23,476	-	72,537
Depreciation	-	-	-	80,702	80,702
Total Expenses	<u>\$ 556,753</u>	<u>\$227,634</u>	<u>\$ 933,785</u>	<u>\$ 80,702</u>	<u>\$1,798,874</u>

### 2005 Natural Classification

<b>Functional Classification</b>	<u>Salaries</u>	<u>Benefits</u>	<u>Other Operating</u>	<u>Depreciation</u>	<u>Total</u>
Programming & production	\$ 226,955	\$ 92,717	\$ 346,815	\$ -	\$ 666,487
Broadcasting	48,982	20,074	286,881	-	355,937
Program information & promotion	23,775	16,192	1,618	-	41,585
Management & general	146,743	54,070	64,887	-	265,700
Fund raising & membership development	26,681	9,188	35,645	-	71,514
Underwriting & grant solicitation	32,210	14,509	-	-	46,719
Depreciation	-	-	-	40,103	40,103
<b>Total Expenses</b>	<b>\$ 505,346</b>	<b>\$206,750</b>	<b>\$ 735,846</b>	<b>\$ 40,103</b>	<b>\$1,488,045</b>

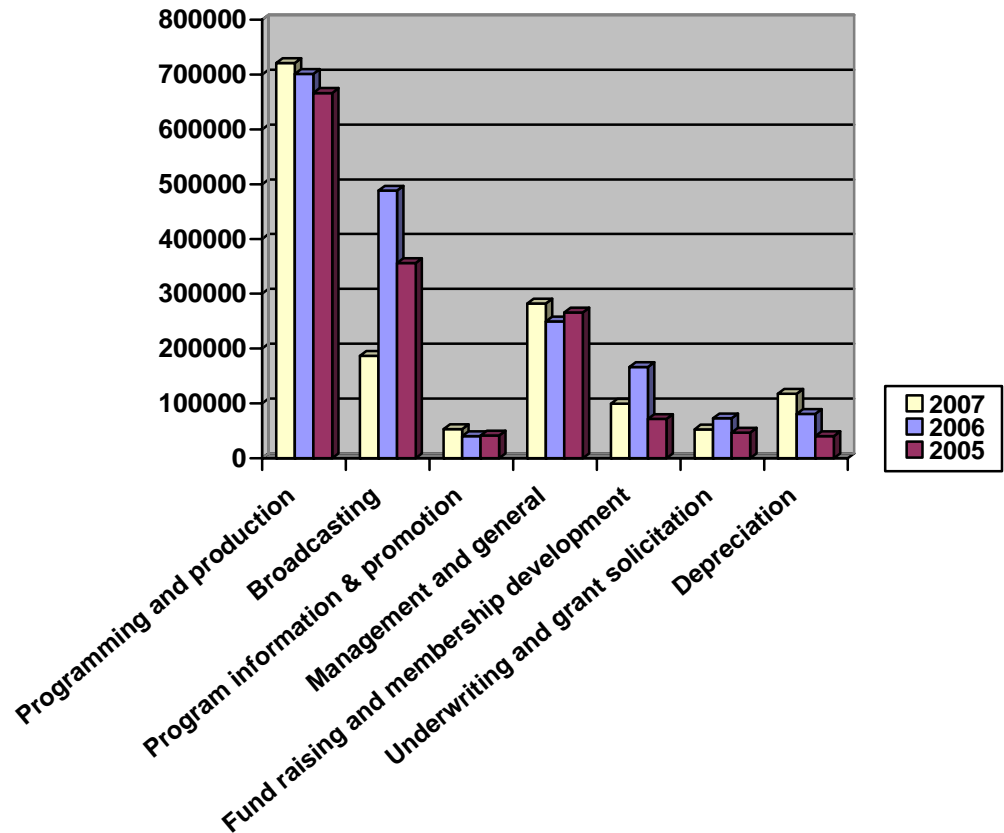
### Operating Expenses by Natural Classification



For the 2007 fiscal year, 50 percent of operating expenses are attributed to salaries and benefits. Other operating expenses represent 42 percent of total expenses. The remaining 8 percent is depreciation.

For the 2006 fiscal year, 44 percent of operating expenses are attributed to salaries and benefits. Other operating expenses represent 52 percent of total expenses. The remaining 4 percent is depreciation.

### Operating Expenses by Function



For the 2007 fiscal year, 48 percent of operating expenses by function are attributable to programming and production. Broadcasting expenses make up 12 percent, and management and general expenses account for 19 percent. The percentages for the remaining functional areas range from 3 to 8 percent of total operating expenses.

For the 2006 fiscal year, 39 percent of operating expenses by function are attributable to programming and production. Broadcasting expenses make up 27 percent, and management and general expenses account for 14 percent. The percentages for the remaining functional areas range from 2 to 9 percent of total operating expenses.

### The Statement of Cash Flows

The statement of cash flows provides information about cash receipts and cash payments during the year. This statement also assists users in assessing the station's ability to generate net cash flows, its ability to meet its obligations as they come due, and its need for external financing.

### Statements of Cash Flows

	<u>2007</u>	<u>2006</u>	<u>2005</u>
<b>Cash provided (used) by:</b>			
Operating activities	\$ (1,389,488)	\$ (1,707,583)	\$ (1,434,604)
Noncapital financing activities	1,440,382	1,407,805	1,325,783
Capital and related financing activities	68,388	(21,636)	69,871
Investing activities	44,420	40,997	40,771
<b>Net increase (decrease) in cash</b>	<u>163,702</u>	<u>(280,417)</u>	<u>1,821</u>
<b>Cash, beginning of year</b>	<u>201,887</u>	<u>482,304</u>	<u>480,483</u>
<b>Cash, end of year</b>	<u>\$ 365,589</u>	<u>\$ 201,887</u>	<u>\$482,304</u>

Operating cash outlays consist of payments to suppliers and vendors, payments to employees, and payments for benefits. The primary cash receipts from noncapital financing activities are gifts and state appropriations. Investing activity reflects the interest on investments and the purchase of new investments.

The net increase in cash and cash equivalents amounted to \$163,702 for the year ended June 30, 2007. This increase was due to a decrease in operating activities spent by the station. The net decrease in cash and cash equivalents amounted to \$280,417 for the year ended June 30, 2006.

### Capital Assets

At June 30, 2007, WUOT-FM had \$204,150 invested in capital assets, net of accumulated depreciation of \$457,647. Depreciation charges totaled \$117,657 for the current fiscal year. These assets were comprised of equipment. The station had no capital additions for fiscal year 2007. At June 30, 2006, WUOT-FM had \$330,250 invested in capital assets, net of accumulated depreciation of \$375,304. Depreciation charges totaled \$80,702 for fiscal year 2006. These assets were comprised of equipment. The station had capital additions of \$99,920 for fiscal year 2006.

### Economic Factors That Will Affect the Future

A primary economic factor facing WUOT-FM is the State of Tennessee funding through the university. In recent years, the State of Tennessee has suffered financial hardships, which resulted in reduced funding to the university. Approximately 29 percent of annual funding flows

through the university, and additional reductions in state funding could have an adverse effect on station operations. Furthermore, the station is reliant on listener support. Through gifts, as well as underwriting income, the station can provide the types of programming its listeners have come to enjoy.

### **Requests for Information**

This financial report is designed to provide a general overview of the station's finances for all those with an interest in the station's finances. Questions concerning any of the information provided in this report or requests for additional information should be directed to S. David Williamson, Business Assistant, WUOT, 209 Communications Building, Knoxville, Tennessee 37996-0322.