

University of Missouri
KUMR-FM Radio

***Financial Statements as of and for the Years Ended
June 30, 2005 and 2004, Supplemental Schedule for
the Year Ended June 30, 2005, and Independent
Auditors' Report***

University of Missouri
KUMR-FM RADIO

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University of Missouri
KUMR-FM RADIO

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
For the Years Ended June 30, 2005 and 2004

This management's discussion and analysis (MD&A) of KUMR-FM Radio (the "Station") provides an overview of the Station's financial performance for the fiscal years ended June 30, 2005 and 2004. Please read it in conjunction with the basic financial statements for the period and the annual report to the Corporation for Public Broadcasting ("CPB") that accompanies the basic financial statements.

OVERVIEW OF THE OPERATIONS

The Station is a department of the University of Missouri (the "University") and operates under FCC license issued to the Curators of the University of Missouri. The University provides on-going, line item funding as well as indirect institutional support (e.g. studio and office space, custodial and human resource support). The University's indirect institutional support to the Station is significant to the Station's financial activities and is fully described in the annual report to CPB.

The University is classified by the IRS as an entity of the State of Missouri and is chartered under Missouri state law. The Station's financial activities are managed under policies and procedures of the University and are subject to internal audit and control by the University. The University and the Station both receive annual external audits. For the Station, the external audit is a condition of annual grant funding from CPB. CPB is a private, nonprofit corporation created by Congress in 1967. CPB is not a governing agency. It promotes public telecommunications services (television, radio and on-line) for the American people.

KUMR ACCOUNTING AND FINANCIAL REPORTING

This report includes three financial statements: the Statements of Net Assets, the Statements of Revenues, Expenses and Changes in Net Assets and the Statements of Cash Flows. The financial statements of the Station are prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board ("GASB").

The notes to the financial statements provide required disclosures and other information that are essential to full understanding of the material data provided in the statements. The notes present information about the Station's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

The Station's annual basis financial statements and reports to CPB are available for public inspection during business hours in the Station's public file located at 1870 Miner Circle, Rolla, MO.

STATEMENTS OF NET ASSETS

The Statements of Net Assets present the financial position of the Station at the end of the fiscal year and include all assets and liabilities of the Station. The Net Assets present the current financial condition of the University. Assets and liabilities are generally measured using current values, with certain exceptions, such as capital assets, which are stated at cost, less accumulated depreciation, and long-term debt, which is stated at cost. A summary of the Station's assets, liabilities and net assets at June 30, 2005, 2004 and 2003, is as follows:

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MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
For the Years Ended June 30, 2005 and 2004

	Fiscal Year 2005	Fiscal Year 2004	Fiscal Year 2003
Assets			
Current Assets	\$ 122,163	\$ 81,783	\$ 81,027
Long-Term Investments	234,295	269,837	230,750
Capital Assets, Net	<u>100,562</u>	<u>34,212</u>	<u>21,655</u>
Total Assets	<u><u>\$ 457,020</u></u>	<u><u>\$ 385,832</u></u>	<u><u>\$ 333,432</u></u>
Liabilities and Net Assets			
Current Liabilities	\$ 110,174	\$ 111,197	\$ 103,074
Noncurrent Liabilities	<u>6,347</u>	<u>5,701</u>	<u>4,817</u>
Total Liabilities	<u>116,521</u>	<u>116,898</u>	<u>107,891</u>
Net Assets:			
Invested in Capital Assets, Net	100,562	34,212	21,655
Restricted -			
Nonexpendable	171,928	163,609	144,617
Expendable	67,009	76,601	50,280
Unrestricted	<u>1,000</u>	<u>(5,488)</u>	<u>8,989</u>
Total Net Assets	<u>340,499</u>	<u>268,934</u>	<u>225,541</u>
Total Liabilities and Net Assets	<u><u>\$ 457,020</u></u>	<u><u>\$ 385,832</u></u>	<u><u>\$ 333,432</u></u>

Fiscal Year 2005 Compared to Fiscal Year 2004

Total assets increased by \$71,188 to \$457,020 which reflects the Station's continued efforts to strengthen its capital position. The increase is due primarily to an increase in grant funding, an increase in private gifts, and an increase in capital assets.

Capital assets for year ending June 30, 2005 increased by \$66,350. Depreciation expense increased \$10,717 from \$3,051 to \$13,768.

Total liabilities decreased \$377 over the prior year due primarily to a decrease in deferred revenue.

Net assets increased by \$71,565 mainly because of the increase in capital assets in the year ending June 30, 2005.

Fiscal Year 2004 Compared to Fiscal Year 2003

Total assets increased by \$52,400 to \$385,832, which reflects the Station's continued efforts to strengthen its capital position. The increase is due primarily to an increase in long-term investments.

Capital assets for year ending June 30, 2004 increased by \$12,557. Depreciation expense increased \$112 from \$2,939 to \$3,051.

Total liabilities increased \$9,007 over the prior year due primarily to an increase in deferred revenue.

Net assets increased by \$43,393 mainly because of the increase in long-term investments.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
For the Years Ended June 30, 2005 and 2004

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

The Statements of Revenues, Expenses and Changes in Net Assets present the Station's results of operations. The Statements distinguish revenues and expenses between operating and non-operating categories, and provide a view of the Station's operating margin.

	Fiscal Year 2005	Fiscal Year 2004	Fiscal Year 2003
Operating Revenues:			
Underwriting Income	\$ 62,913	\$ 56,980	\$ 62,438
Grants from Corporation for Public Broadcasting	130,833	89,505	109,161
Other	3,242	4,763	20,199
Total Operating Revenues	<u>196,988</u>	<u>151,248</u>	<u>191,798</u>
Operating Expenses:			
Program Services -			
Programming and Production	187,393	185,768	188,631
Broadcasting	114,005	115,959	171,127
Program Information	24,469	21,323	17,542
Total Program Services	<u>325,867</u>	<u>323,050</u>	<u>377,300</u>
Support Services -			
Grant Solicitation and Underwriting	27,312	21,485	18,384
Fundraising and Membership	69,561	53,337	50,001
Management and General	279,336	271,366	237,840
Total Support Services	<u>376,209</u>	<u>346,188</u>	<u>306,225</u>
Depreciation Expense	<u>13,768</u>	<u>3,051</u>	<u>2,939</u>
Total Operating Expenses	<u>715,844</u>	<u>672,289</u>	<u>686,464</u>
Operating Loss Before Nonoperating Revenues	<u>(518,856)</u>	<u>(521,041)</u>	<u>(494,666)</u>
Nonoperating Revenues:			
Support from the University of Missouri	266,827	278,337	234,956
Donated Facilities and Administrative Support	124,602	100,642	98,919
Investment Income	14,591	24,950	7,937
Private Gifts	148,266	160,505	136,370
Total Nonoperating Revenues	<u>554,286</u>	<u>564,434</u>	<u>478,182</u>
Income (Loss) before Capital Contributions	35,430	43,393	(16,484)
Capital grant from Department of Commerce	36,135	-	-
Increase (Decrease) in Net Assets	71,565	43,393	(16,484)
Net Assets, Beginning of Year	<u>268,934</u>	<u>225,541</u>	<u>242,025</u>
Net Assets, End of Year	<u>\$ 340,499</u>	<u>\$ 268,934</u>	<u>\$ 225,541</u>

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For the Years Ended June 30, 2005 and 2004

Fiscal Year 2005 Compared to Fiscal Year 2004

Total **Operating Revenues** for fiscal year 2005 increased \$45,740 from fiscal year 2004. This fluctuation is mainly due to increases in Community service Grants from the Corporation for Public Broadcasting. The Station's operating revenues fall into two categories: 1) Listener sensitive income including contributions from listeners through special events and program support from area businesses in exchange for on-air recognition; and 2) operating grants from CPB.

Underwriting Income for fiscal year 2005 increased by 10.4% or \$5,933 over fiscal year 2004. Because of the uncertain economic outlook for support from the University System due to the State of Missouri's cuts to the System, the Station has made a conscientious effort to increase underwriting revenue.

Community Service and Other Grants from the Corporation for Public Broadcasting for fiscal year 2005 increased by 46.2% or \$41,328 over fiscal year 2004 due to a reclassification by CPB which provided more funding for rural stations.

Total **Non-operating Revenues** for fiscal year 2005 decreased by \$10,148 from fiscal year 2004. The decreases were in Private Gifts, Support from the University of Missouri System and Investment Income. Certain significant revenue streams relied upon for operations are recorded as non-operating revenues, as defined by GASB Statement No. 35, including private gifts, investment income, and donated facilities and administrative support from the University.

Support from the University of Missouri System decreased 4.1% in fiscal year 2005 to \$266,827 from \$278,337 in fiscal year 2004. This was primarily due to cuts in the System by the State of Missouri.

Donated facilities and administrative support from the University of Missouri System increased \$23,960 or 23.8% in fiscal year 2005 from fiscal year 2004. This change is due primarily to a change in Institutional Support expenditures.

Investment Income in fiscal year 2005 decreased \$10,359 or 41.5% from fiscal year 2004. The difference is the fluctuation in the market from year to year.

Private Gifts decreased \$12,239 to \$148,266 for fiscal year ended June 30, 2005, as compared to \$160,505 for fiscal year 2004. The decrease is related to the conclusion of the capital campaign for a new transmitter that began in fiscal year 2004.

Total **Operating expenses** increased \$43,555 to \$715,844 as of June 30, 2005, compared to \$672,289 as of June 30, 2004. Operating expenses fall into two categories: 1) Program services representing 45.4% and 48.1% of total operating expenses for fiscal years ended June 30, 2005, and 2004, respectively; and 2) Support services representing 52.7% and 51.5% of total operating expenses for fiscal years ended June 30, 2005, and 2004, respectively.

The increase is primarily due to increases in **Programming and Production** expenses of \$1,625 to \$187,393 for the fiscal year ended June 30, 2005, compared to \$185,768 for fiscal year ended June 30, 2004, increase of \$16,224 to \$69,561 in Fund-raising and Membership Development in fiscal year ended June 30, 2005 compared to \$53,337 in fiscal year ended June 30, 2004 and an increase in Management and General expenses of \$7,970 to \$279,336 for the fiscal year ended June 30, 2005, compared to \$271,366 for fiscal year ended June 30, 2004.

Fiscal Year 2004 Compared to Fiscal Year 2003

Total **Operating Revenues** for fiscal year 2004 decreased \$40,550 over fiscal year 2003. This fluctuation is mainly due to a decrease in CPB grant funding because of a delay in receiving the second half of the FY04 grant and a decrease in underwriting revenue. The Station's operating revenues fall into two categories: 1)

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For the Years Ended June 30, 2005 and 2004

Listener sensitive income including contributions from listeners through program support and from area businesses in exchange for on-air recognition; and 2) operating grants from CPB.

Underwriting Income for fiscal year 2004 decreased by 9% or \$5,458 from fiscal year 2003 due mainly to an increase in prepaid underwriting.

Community Service Grants from the Corporation for Public Broadcasting for fiscal year 2004 decreased by 18% or \$19,656 from fiscal year 2003.

Total **Non-operating Revenues** for fiscal year 2004 increased by \$86,252 or 18% over fiscal year 2003. The increases in Support from the University of Missouri System, Investment Income, and Private Gifts account primarily for the increase. Certain significant revenue streams relied upon for operations are recorded as non-operating revenues, as defined by GASB Statement No. 35, including private gifts, investment income, and donated facilities and administrative support from the University.

Donated facilities and administrative support from the University of Missouri System increased \$1,723 or 2% in fiscal year 2004 from fiscal year 2003. This change is due primarily to a change in Institutional Support expenditures.

Investment Income in fiscal year 2004 increased \$17,013 from fiscal year 2003. The difference is the fluctuation in the market from year to year.

Private Gifts from individuals increased \$24,135 to \$160,505 for fiscal year ended June 30, 2004, as compared to \$136,370 for fiscal year 2003. The increase is due primarily because the Station conducted a campaign to raise funds for a new transmitter.

Total **Operating expenses** decreased \$14,175 to \$672,289 as of June 30, 2004, compared to \$686,464 as of June 30, 2003. Operating expenses fall into two categories: 1) Program services representing 48% and 55% of total operating expenses for fiscal years ended June 30, 2004, and 2003, respectively; and 2) Support services representing 51% and 45% of total operating expenses for fiscal years ended June 30, 2004, and 2003, respectively.

The decrease is primarily due to a decrease in **Broadcasting** expenses of \$55,168 to \$115,959 for the fiscal year ended June 30, 2004, compared to \$171,127 for fiscal year ended June 30, 2003, offset by an increase in **Management and general** expenses of \$33,526 to \$271,366 for the fiscal year ended June 30, 2004, compared to \$237,840 for fiscal year ended June 30, 2003.

ECONOMIC OUTLOOK

The economic outlook for the Station is dependent on various influences of the Station's funding sources.

- **Corporation for Public Broadcasting:** The fiscal year 2005 CPB appropriation from the federal government was \$377.8 million. CPB is funded two years in advance. CPB appropriation for fiscal years 2006 and 2007, each respectively, is \$400 million. For fiscal year 2008, the CPB request for funding is \$430 million. Thus the stability of CPB funding will remain steady for the next year. CPB has approved new funding guidelines effective fiscal year 2007. The core amount of the Community Service Grant will be smaller, but dependent on stations meeting certain community service goals, the overall grant will either increase or decrease.
- **Underwriting support:** The Station has worked for a number of years to increase private business funding and will continue towards an annual increase in underwriting because an increase will increase CPB funding.

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For the Years Ended June 30, 2005 and 2004

- Special event funding: The Station does not rely on special event funding, but if a situation presents itself, the Station will evaluate if it is to the Station's advantage.
- University of Missouri line-item and indirect funding: The Station does not foresee a dramatic change in funding for future years. Indirect funding is dependent on Institutional Support expenditures.
- Investment income: The Station's investments are directed by the University. Investment income is dependent on market viability.
- Private donations: KUMR relies on certain significant revenue streams, including private gifts, for operations even though they are recorded as non-operating revenues, as defined by GASB Statement No. 35.
- Other funding such as gains on assets and miscellaneous revenue: The Station does not plan to sell any equipment in the near future.



KPMG LLP
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St. Louis, MO 63102-1761

Independent Auditors' Report

To the Board of Curators
University of Missouri:

We have audited the accompanying statement of net assets of the University of Missouri KUMR-FM Radio as of June 30, 2005, and the related statements of revenues, expenses, and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the University of Missouri's management. Our responsibility is to express an opinion on these financial statements based on our audit. The accompanying financial statements of the University of Missouri KUMR-FM Radio, as of and for the year ended June 30, 2004, were audited by other auditors whose report dated December 27, 2004 expressed an unqualified opinion on those 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 University of Missouri KUMR-FM Radio'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 the 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.

As discussed in note 1, the financial statements of the University of Missouri KUMR-FM Radio are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the business-type activities of the University of Missouri that is attributable to the transactions of the University of Missouri KUMR-FM Radio. They do not purport to, and do not, present fairly the financial position of the University of Missouri as of June 30, 2005, the changes in its financial position or its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the 2005 financial statements referred to above present fairly, in all material respects, the financial position of the University of Missouri KUMR-FM Radio as of June 30, 2005, and the changes in its financial position and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in note 1, effective July 1, 2004, the University of Missouri KUMR-FM Radio implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*, an amendment of GASB Statement No. 3.

The 2005 Management's Discussion and Analysis, on pages 1 through 6, is not a required part of the financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. 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 the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental schedule of nonfederal financial support for the year ended June 30, 2005, required by the Public Telecommunication Financing Act of 1978, is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

KPMG LLP

St. Louis, Missouri
March 24, 2006

University of Missouri
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STATEMENTS OF NET ASSETS
As of June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 768	\$ 38
Cash and Cash Equivalents - Restricted	55,263	37,070
Short-Term Investments	351	24
Short-Term Investments - Restricted	40,201	25,108
Accounts Receivable - Restricted	3,781	3,085
Pledges Receivable, Net - Restricted	4,562	-
Prepaid Expense	17,237	16,458
Total Current Assets	<u>122,163</u>	<u>81,783</u>
Noncurrent Assets:		
Long-Term Investments	1,677	2,734
Long-Term Investments - Restricted	232,618	267,103
Capital Assets, Net	100,562	34,212
Total Noncurrent Assets	<u>334,857</u>	<u>304,049</u>
Total Assets	<u>\$ 457,020</u>	<u>\$ 385,832</u>
 LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accrued Vacation	\$ 22,636	\$ 20,329
Accounts Payable and Other Accrued Expenses	6,677	12,630
Unexpended Grants	76,613	73,228
Deferred Revenue	4,248	5,010
Total Current Liabilities	<u>110,174</u>	<u>111,197</u>
Noncurrent Liabilities:		
Accrued Vacation	6,347	5,701
Total Noncurrent Liabilities	<u>6,347</u>	<u>5,701</u>
Total Liabilities	<u>116,521</u>	<u>116,898</u>
Net Assets:		
Restricted -		
Nonexpendable - Endowment	171,928	163,609
Expendable - Gifts and Development	67,009	76,601
Unrestricted	1,000	(5,488)
Invested in Capital Assets, Net of Related Debt	100,562	34,212
Total Net Assets	<u>340,499</u>	<u>268,934</u>
Total Liabilities and Net Assets	<u>\$ 457,020</u>	<u>\$ 385,832</u>

See accompanying notes to the financial statements.

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STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For The Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Operating Revenues:		
Underwriting Income	\$ 62,913	\$ 56,980
Community Service Grants from Corporation for Public Broadcasting	130,833	89,505
Other	3,242	4,763
Total Operating Revenues	<u>196,988</u>	<u>151,248</u>
Operating Expenses:		
Program Services -		
Programming and Production	187,393	185,768
Broadcasting	114,005	115,959
Program Information	24,469	21,323
Total Program Services	<u>325,867</u>	<u>323,050</u>
Supporting Services -		
Grant Solicitation and Underwriting	27,312	21,485
Fund-raising and Membership Development	69,561	53,337
Management and General	279,336	271,366
Total Supporting Services	<u>376,209</u>	<u>346,188</u>
Depreciation expense	13,768	3,051
Total Operating Expenses	<u>715,844</u>	<u>672,289</u>
Operating Loss Before Nonoperating Revenue	<u>(518,856)</u>	<u>(521,041)</u>
Nonoperating Revenues:		
Support from the University of Missouri	266,827	278,337
Donated Facilities and Administrative Support from University of Missouri	124,602	100,642
Investment Income	14,591	24,950
Private Gifts	148,266	160,505
Total Nonoperating Revenues	<u>554,286</u>	<u>564,434</u>
Income before Capital Contributions	35,430	43,393
Capital grant from Department of Commerce	36,135	-
Increase in Net Assets	<u>71,565</u>	<u>43,393</u>
Net Assets, Beginning of Year	<u>268,934</u>	<u>225,541</u>
Net Assets, End of Year	<u>\$ 340,499</u>	<u>\$ 268,934</u>

See accompanying notes to the financial statements.

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STATEMENTS OF CASH FLOWS
For The Years Ended June 30, 2005 and 2004

	2005	2004
Cash Flows from Operating Activities:		
Underwriting Income	\$ 61,456	\$ 61,087
Corporation for Public Broadcasting Grant	124,394	82,541
Payments to Suppliers and Employees	(581,256)	(553,916)
Other Receipts	3,242	4,763
Net Cash Used in Operating Activities	(392,164)	(405,525)
Cash Flows from Noncapital Financing Activities:		
Private Gifts	143,704	168,711
Payments and Contributions from University of Missouri	266,827	278,337
Net Cash Provided by Noncapital Financing Activities	410,531	447,048
Cash Flows from Capital Financing Activities:		
Capital Grants	45,960	-
Purchase of Capital Assets	(80,118)	(15,608)
Net Cash Used In Capital Financing Activities	(34,158)	(15,608)
Cash Flows from Investing Activities:		
(Purchase) Sale of Investments, Net	20,123	(64,219)
Investment Income	14,591	24,950
Net Cash Provided by (Used in) Investing Activities	34,714	(39,269)
Net Increase (Decrease) in Cash and Cash Equivalents	18,923	(13,354)
Cash and Cash Equivalents, Beginning of Year	37,108	50,462
Cash and Cash Equivalents, End of Year	\$ 56,031	\$ 37,108
Reconciliation of Operating Loss to Net Cash Used in Operating Activities:		
Operating Loss	\$ (518,856)	\$ (521,041)
Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities -		
Depreciation Expense	13,768	3,051
Donated Facilities and Administrative Support	124,602	100,642
Changes in Assets and Liabilities:		
Accounts Receivable	(696)	(903)
Prepaid Expense	(779)	1,425
Accrued Vacation	2,953	4,033
Accounts Payable and Accrued Expenses	(5,954)	6,928
Unexpended Grants and Deferred Revenue	(7,202)	(1,954)
Net Cash Used in Operating Activities	\$ (392,164)	\$ (407,819)
Noncash Activity:		
Administrative Support from the University of Missouri	\$ 124,602	\$ 100,642
Non-Cash Contributions of Services and Other Assets	4,966	2,294

See accompanying notes to the financial statements.

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NOTES TO FINANCIAL STATEMENTS
For The Years Ended June 30, 2005 and 2004

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The major policies followed by KUMR-FM Radio (the “Station”) are presented below to assist the reader and to enhance the usefulness of the financial statements.

Organization – The Station is a non-profit, non-commercial radio station operated by the University of Missouri (the “University”) on its Rolla campus in Rolla, Missouri. The Station operates with a power of 100,000 watts, reaching a potential audience in a 80-mile radius. The financial activity of the Station is included in the financial statements of the University. The accompanying financial statements were prepared based on the combination of various accounts associated with the Station and its related operations and do not present the financial position or changes in financial position or cash flows of the University. The Station is dependent upon support from the Corporation for Public Broadcasting, the University and the public.

Financial Statement Presentation – In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Station is required to follow all applicable GASB pronouncements. In addition, the Station applies all applicable FASB Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989, except those that conflict with a GASB pronouncement. The Station has elected not to apply FASB pronouncements issued after November 30, 1989.

The Station has adopted GASB Statement No. 35, *Basic Financial Statement—and Management’s Discussion and Analysis—for Public Colleges and Universities*, as amended by GASB Statements No. 37 and No. 38. GASB Statement No. 35 establishes standards for external financial reporting for public colleges and universities. The financial statement presentation provides a comprehensive entity-wide perspective of the Station’s net assets, revenues, expenses and changes in net assets and cash flows replacing the fund-group perspective previously required.

Effective July 1, 2004, the Station has adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3*. The Statement modifies certain disclosure requirements of GASB Statement No. 3.

Basis of Accounting – The Station’s financial statements have been prepared using the economic resource focus and the accrual basis. The Station reports as a Business Type Activity, as defined by GASB Statement No. 34. Business Type Activities are those that are financed in whole or in part by funds received from external parties for goods or services.

The Station’s policy for defining operating activities as reported on the Statements of Revenues, Expenses and Changes in Net Assets are those that generally result from exchange transactions such as payments received for providing services and payments made for services or goods received. Certain significant revenue streams relied upon for operations are recorded as nonoperating revenue as defined by GASB Statement No. 34. Nonoperating revenues include revenues from activities that have the characteristics of nonexchange transactions, such as private gifts, investment income and donated facilities and administrative support from the University.

Cash and Cash Equivalents – The Station participates in the University’s pooled cash and investment accounts. For purposes of the financial statements, cash and cash equivalents consist of cash and short-term investments, with original purchased maturities of three months or less. Investment assets are carried at fair value based primarily on market quotations. Purchases and sales of investments are accounted for on the trade date basis. Investment income is recorded on the accrual basis. Net unrealized gains (losses) are included in investment income in the Statements of Revenues, Expenses and Changes in Net Assets.

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NOTES TO FINANCIAL STATEMENTS
For The Years Ended June 30, 2005 and 2004

Accounts Receivable – Accounts receivable are presented at their gross amount. No allowance for doubtful accounts has been provided as management has determined no write offs are expected for accounts receivable.

Pledges Receivable – The Station receives unconditional promises to give (pledges) through private donations from corporations, alumni and various other supporters of the Station. These pledges have been recorded as pledges receivable on the Statements of Net Assets and as a portion of private gifts on the Statements of Revenues, Expenses and Changes in Net Assets, at the present value of the estimated future cash flows. An allowance of \$4,001 and \$0 as of June 30, 2005 and 2004, has been made for uncollectible pledges based upon management's expectations regarding the collection of the pledges and the Station's historical collection experience.

Capital Assets – These assets are carried, if purchased, at cost, or if donated, at fair value at date of gift. Depreciation of capital assets is provided on a straight-line basis over the estimated useful lives of the respective assets – generally ten to forty years for buildings and improvements and seven to fifteen years for equipment. Expenditures for repairs and maintenance are charged to operating expenses as incurred

Deferred Revenue and Unexpended Grants – Amount reflected in the Statements of Net Assets as of June 30, 2005 and 2004 represents cash the Station has received under contracts that have services to be performed by the Station in fiscal years 2006 and 2005, respectively. Grant revenues are recognized only to the extent they are expended.

Net Assets – The Station's net assets are classified for financial reporting in the following net asset categories:

- **Invested in Capital Assets, Net of Related Debt:** Capital assets, net of accumulated depreciation and outstanding principal balances of debt, if any, attributable to the acquisition, construction or improvement of those assets.

- **Restricted:**

Nonexpendable – Net assets subject to externally imposed stipulations that they be maintained permanently by the Station. Such assets include the Station's permanent endowment funds.

Expendable – Net assets whose use by the Station is subject to externally imposed stipulations that can be fulfilled by actions of the Station pursuant to those stipulations or that expire by the passage of time.

- **Unrestricted:** Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specified purposes by action of management or may otherwise be limited by contractual agreements with outside parties.

Underwriting Income – Underwriting income consists of advertising spots, purchased by corporate sponsors, and recognized when the spot is aired by the Station.

In-Kind Contributions – are recorded as revenue and expense in the accompanying Statements of Revenues, Expenses and Changes in Net Assets. In-Kind contributions consist of donated property and professional services. These donations are recorded at fair value at time of gift.

Donated Facilities and Administrative Support – Donated facilities from the University consist of office and studio space. The cost of these facilities together with the related occupancy cost are recorded in revenues and expenses at depreciable value in accordance with valuation guidelines established by the Corporation for Public Broadcasting. Indirect administrative support from the University is included in revenues under donated facilities and administrative support. Direct support from the University consists of allocated general and administrative expenses incurred by the institution on behalf of the Station.

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NOTES TO FINANCIAL STATEMENTS
For The Years Ended June 30, 2005 and 2004

New Accounting Pronouncements – The GASB issued GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, effective for fiscal years beginning after December 15, 2004. This statement establishes accounting and financial reporting standards for impairment of capital assets, as well as clarifying and establishing accounting requirements for insurance recoveries. Impairment of a capital asset may be the result of physical damage, technology changes, obsolescence, and construction stoppage. If impairment is determined to exist, the capital asset may be revalued and disclosed in accordance with the provisions of the statement. The Station has not yet determined the effect that adoption of GASB Statement No. 42 may have on the financial statements.

The GASB has also issued GASB Statement No. 47, *Accounting for Termination Benefits*, effective for fiscal years beginning after June 15, 2005. The statement provides accounting and reporting guidance for entities that offer benefits such as early retirement incentives or to employees who are involuntarily terminated. The statement is intended to enhance both the consistency of reporting for termination benefits and the comparability of financial statements, by requiring that similar forms of termination benefits be accounted for in the same manner. The Station has not yet determined the effect that adoption of GASB Statement No. 47 may have on the financial statements.

Use of 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 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.

Reclassifications – Certain reclassifications to the prior year's financial information has been made to conform to the current year presentation.

2. CASH AND CASH EQUIVALENTS

Cash & Cash Equivalents – The Station participates in the University's pooled cash and investment accounts, stated at fair value, and holds an equity investment in the pool. The University's cash and cash equivalents include bank deposits, repurchase agreements and investments with maturities of three months or less.

Custodial Credit Risk – Deposits – The custodial credit risk for deposits is the risk that in the event of bank failure, the University's deposits may not be recovered. State law requires collateralization of all deposits with federal depository insurance, bonds and other obligations of the U.S. Treasury, U.S. Agencies and instrumentalities of the state of Missouri; bonds of any city, county, school district or special road district of the state of Missouri; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits. The following chart presents the Station's cash and cash equivalent deposit balances as of June 30, 2005:

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NOTES TO FINANCIAL STATEMENTS
For The Years Ended June 30, 2005 and 2004

	<u>Uninsured and Uncollateralized</u>	<u>Unsecured and Collateralized with Securities held by Pledging Institution's Trust Department Not in the University's Name</u>	<u>Collateralized and Fully Insured Bank Balances</u>	<u>Total Carrying Value</u>
Cash & Cash Equivalent Deposits	\$ 121	\$ -	\$ 12,493	\$ 12,614
Total	<u>\$ 121</u>	<u>\$ -</u>	<u>\$ 12,493</u>	<u>\$ 12,614</u>

3. INVESTMENTS

Investments - The Station participates in the University's pooled investment accounts, stated at fair value, and holds an equity investment in the pool. The investment policies of the University are established by its governing board, the Board of Curators. The policies are established to ensure that the University funds are managed in accordance with Section 105.688 of the Revised Statutes of Missouri. The University's security investments are held in book-entry form in brokerage, custody and safe keeping accounts in the University's name.

At June 30, 2005 the Station held investments, by investment type, as follows:

	Carrying Value as of June 30, 2005
Government Obligations	\$ 116,122
Corporate Bonds and Notes	31,606
Corporate Stocks	127,119
Total Short-Term and Long-Term Investments	<u>274,847</u>
Commercial Paper	40,718
Repurchase Agreements	2,699
Invested Cash and Cash Equivalents	<u>43,417</u>
Total Investments	<u>\$ 318,264</u>

Custodial Credit Risk – Investments - The custodial credit risk for investments is the risk that in the event of failure of the counterparty to a transaction, the University will not be able to recover the value of the investments. In accordance with University policy, the University minimizes its custodial credit risk on deposits by establishing limitations on the types of investments held with qualifying institutions. Repurchase agreements must be collateralized by U.S. Government issues and/or U.S. Government Agency issues. Certificates of deposit must be collateralized and held at a bank with which the University has a depository agreement. The Station's investment of \$40,718 in commercial paper is uninsured and uncollateralized. The Station's investment of \$2,699 in repurchase agreements is held by the investment's counterparty, not in the name of the University. All of the remaining University investments are insured and registered and are held by the University or an agent in its name.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University's Pooled General Investments consist of primarily fixed income securities,

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For The Years Ended June 30, 2005 and 2004

with a specific limitation that no more than 15% of the pool consists of variable rate securities. As a means of ensuring the safety of principal invested in the Pooled Endowment Investments, the University's investment policy requires diversification of the investment portfolio.

At June 30, 2005 the maturities of the Station's portion of the University's debt investments are as follows:

	As of June 30, 2005				
	Less than 1 Year	1-5 Years	6-10 Years	More than 10 Years	Carrying Value
U.S. Agency Obligations	\$ 30,421	\$ 51,341	\$ 6,577	\$ 2,522	\$ 90,861
U.S. Treasury Obligations	1,400	5,327	1,593	1,614	9,934
Foreign Government Obligations	147	7,117	5,313	2,750	15,327
U.S. Corporate Bonds & Notes	8,133	15,955	1,547	1,096	26,731
Foreign Corporate Bonds & Notes	451	1,612	1,629	1,183	4,875
Total	\$ 40,552	\$ 81,352	\$ 16,659	\$ 9,165	\$ 147,728

Credit Risk – The credit risk of investments is the risk that the issuer or other counterparty will not meet its obligations. This credit risk is measured by the credit quality ratings of investments in debt securities as described by a national recognized statistical rating organization such as Standard and Poor's (S&P) and Moody's. University policy provides that investments in corporate bonds and other fixed income securities must have a rating of A or better.

However, the University has elected to use Moody's Investors Service investment ratings in the following Credit Risk report. Several securities within the Pooled Endowment have Moody's ratings of Baa or Ba and Standard and Poor's ratings in the A range (A-, A, & A+), which places those bonds within the parameters specified in the University's policy.

The following represents the Station's portion of the University's investment exposure to credit risk, based on Moody's investment ratings:

	As of June 30, 2005						Total
	Aaa	Aa	A	Baa	Ba	Unrated	
U.S. Agency Obligations	\$ 75,596	\$ 10,994	\$ 7	\$ -	\$ -	\$ 4,264	\$ 90,861
U.S. Treasury Obligations	-	-	-	-	-	9,934	9,934
Foreign Government Obligations	11,571	308	2,676	-	-	772	15,327
U.S. Corporate Bonds & Notes	2,768	11,069	12,228	56	-	610	26,731
Foreign Corporate Bonds & Notes	2,614	665	737	157	-	702	4,875
Total	\$ 92,549	\$ 23,036	\$ 15,648	\$ 213	\$ -	\$ 16,282	\$ 147,728

Foreign Currency Risk – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of a foreign investment. University policy allows 15-25% of the investment portfolio to be invested in international investments (12.1% and 12.2% denominated in foreign currency in fiscal year 2005 and 2004, respectively). To reduce the risk related to fluctuations in currency exchange rates, the University has entered into forward foreign currency contracts throughout the year. As of June 30, 2005 and 2004, 4.7% or \$14,958 and 4.6% or \$15,411, respectively, of the Station's total investment portfolio is invested in forward foreign currency contracts. These contracts are marked to market and the changes in their market value are

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NOTES TO FINANCIAL STATEMENTS
For The Years Ended June 30, 2005 and 2004

recorded in investment and endowment income on the Statements of Revenues, Expenses and Changes in Net Assets. The following represents the Station's portion of the University's exposure to foreign currency risk:

Foreign Currency Risk	
International Investment Securities at Fair Value	
<u>Currency</u>	<u>2005</u>
Australian Dollar	\$ 675
British Pound Sterling	6,406
Canadian Dollar	665
Chilean Peso	5
Danish Krone	215
Euro	15,407
Hong Kong Dollar	704
Israeli Shekel	39
Japanese Yen	9,939
Mexican New Peso	71
New Taiwan Dollar	10
New Zealand Dollar	16
Norwegian Krone	139
Polish Zloty	32
South African Comm Rand	100
Singapore Dollar	212
South Korean Won	23
Swedish Krona	1,070
Swiss Franc	<u>2,865</u>
Total	<u>\$ 38,593</u>

Concentration of Credit Risk – The concentration of credit risk is the risk of loss that may occur due to the amount of investments in a single issuer (not including investments issued or guaranteed by the U.S. government, investments in mutual funds, or external investment pools).

For University funds invested through the Pooled General Investments category the following restrictions apply: 1) Corporate Bonds should not exceed 20% of the portfolio; 2) Variable Rate securities should not exceed 15% of the portfolio; and 3) Investments in obligations of the U.S. Government, U.S. Government Agency issues or U.S. Government guaranteed securities is unlimited.

For University funds invested through the Pooled Endowment Investments category, target asset mixes are assessed and evaluated to ensure diversification. The investment policy allows for a portfolio consisting of no more than 47.5% U.S. equity, 25% international equity, 10% emerging markets equity, 10% alternative investments (maximum of 5.0% in hedge funds), 10% real estate and 27.5% global fixed income.

Portions of the Pooled Endowment Investments are invested in a fixed income fund, called the Fixed Income Pool, which, due to donor restrictions, can only be invested in fixed income securities. Investments in this portfolio consist of U.S. Government, U.S. Government Agency issues, corporate fixed income, commercial paper and repurchase agreements.

As of June 30, 2005, of the Station's total investments, 19.1% are issues of the Federal Home Loan Bank (FHLB), 9.5% are issues of the Federal National Mortgage Association (FNMA) and 5.2% are issues of the Federal Home Loan Mortgage Corporation (FHLMC).

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NOTES TO FINANCIAL STATEMENTS
For The Years Ended June 30, 2005 and 2004

4. CHANGES IN UNEXPENDED GRANTS

The balance of unexpended grants at June 30, 2005 and 2004 represents unexpended Corporation for Public Broadcasting Community Service Grants and Department of Commerce.

	Unexpended Grants	
	2005	2004
Balance, Beginning of Year	\$ 73,228	\$ 80,192
Grants	134,218	82,541
Deductions, Amount Expended	(130,833)	(89,505)
Balance, End of Year	<u>\$ 76,613</u>	<u>\$ 73,228</u>

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NOTES TO FINANCIAL STATEMENTS
For The Years Ended June 30, 2005 and 2004

5. CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2005 and 2004 is summarized as follows:

2005	Beginning Balance	Additions	Retirements	Ending Balance
Capital Assets, Depreciable:				
Buildings	\$ 73,662	\$ 14,842	\$ -	\$ 88,504
Transmission, Antenna and Tower	77,056	-	-	77,056
Studio and Other Broadcast Equipment	112,229	65,276	-	177,505
Total Capital Assets, Depreciable	262,947	80,118	-	343,065
Accumulated Depreciation:				
Buildings	57,703	1,843	-	59,546
Transmission, Antenna and Tower	74,298	1,097	-	75,395
Studio and Other Broadcast Equipment	96,734	10,828	-	107,562
Total Accumulated Depreciation	228,735	13,768	-	242,503
Total Capital Assets, Net	\$ 34,212	\$ 66,350	\$ -	\$ 100,562
2004	Beginning Balance	Additions	Retirements	Ending Balance
Capital Assets, Depreciable:				
Buildings	\$ 73,662	\$ -	\$ -	\$ 73,662
Transmission, Antenna and Tower	77,056	-	-	77,056
Studio and Other Broadcast Equipment	96,621	15,608	-	112,229
Total Capital Assets, Depreciable	247,339	15,608	-	262,947
Accumulated Depreciation:				
Buildings	55,861	1,842	-	57,703
Transmission, Antenna and Tower	73,202	1,096	-	74,298
Studio and Other Broadcast Equipment	96,621	113	-	96,734
Total Accumulated Depreciation	225,684	3,051	-	228,735
Total Capital Assets, Net	\$ 21,655	\$ 12,557	\$ -	\$ 34,212

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NOTES TO FINANCIAL STATEMENTS
For The Years Ended June 30, 2005 and 2004

6. NONCURRENT LIABILITIES

Noncurrent liabilities at June 30, 2005 and 2004, are summarized as follows (in thousands of dollars):

	2005			2005	
	Beginning of Year	Additions	Payments	End of Year	Current Portion
Accrued Vacation	\$ 26,030	\$ 23,282	\$ (20,329)	\$ 28,983	\$ 22,636
	<u>\$ 26,030</u>	<u>\$ 23,282</u>	<u>\$ (20,329)</u>	<u>\$ 28,983</u>	<u>\$ 22,636</u>
	2004			2004	
	Beginning of Year	Additions	Payments	End of Year	Current Portion
Accrued Vacation	\$ 21,997	\$ 17,079	\$ (13,046)	\$ 26,030	\$ 20,329
	<u>\$ 21,997</u>	<u>\$ 17,079</u>	<u>\$ (13,046)</u>	<u>\$ 26,030</u>	<u>\$ 20,329</u>

7. RISK MANAGEMENT

The Station is a part of the University's overall risk management program. The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; natural disasters; and various medically related benefit programs for employees. The University funds these losses through a combination of self-insured retentions and commercially purchased insurance. The amount of self-insurance funds and commercial insurance maintained are based upon analysis of historical information and actuarial estimates. Settled claims have not exceeded commercial coverage in any of the past three fiscal years. The University does not maintain a separate liability for claims relating to the Station. The Station is charged a premium annually from the University for such coverage.

8. RETIREMENT PLAN

Plan Description – All qualified employees of the Station participate in the University of Missouri Retirement, Disability, and Death Benefits Plan (the "Plan"), a single employer defined benefit plan.

All full-time employees of the University are eligible for benefits after five years of service. The annual lifetime pension of a member is calculated by multiplying the number of years of service by 2.2% of the compensation base. The compensation base is the average regular annual salary of the member for the five consecutive highest salary years. Benefits to pensioners may be increased at age 65 or thereafter. Early retirement benefits are available at reduced rates to members age 55 to 60 with at least ten years of credited service and members age 60 to 65 with at least five years of credited service.

Contributions – The University's contributions to the Plan are equal to the actuarially determined contribution requirement, as a percent of payroll, which averaged 6.4% and 6.7% for the years ended June 30, 2005 and 2004, respectively. The Plan is funded 100% by University contributions and does not require employee contributions.

Additional Information – Historical trend information and funding status information designed to provide information about the Plan's progress made in accumulating sufficient assets to pay benefits and disclose "actuarial accrued liability" and the funding excess or unfunded liability when due is presented in the

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NOTES TO FINANCIAL STATEMENTS
For The Years Ended June 30, 2005 and 2004

University's annual report, which can be obtained at the University of Missouri, 118 University Hall, Columbia, MO 65211.

9. OTHER POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 6, the Station provides postretirement medical, dental and life insurance benefits to employees who retire from the University after attaining age 55 and before reaching age 60 with ten or more years of service, or who retire after attaining age 60 with five or more years of service.

For employees retiring prior to September 1, 1990, the Fund contributes toward premiums at the same rate as for active employees: $\frac{2}{3}$ of the premium for medical benefits and $\frac{1}{2}$ of the dental plan premium. For employees who retired under the terms of the Retirement and Death Benefit Plan on September 1, 1990 or thereafter, the Fund contributes toward premiums on the basis of the employee's length of service and age at retirement.

The terms and conditions governing the postemployment benefits to which employees are at the sole authority and discretion of the University's Board of Curators. Postemployment benefit costs are recorded on a pay-as-you-go basis.

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SUPPLEMENTAL SCHEDULE OF NON-FEDERAL FINANCIAL SUPPORT
For The Year Ended June 30, 2005

Summary of Non-Federal Financial Support

1. Direct Revenue	\$	478,674
2. Indirect Administrative Support		124,602
3. Total Non-Federal Financial Support	\$	<u>603,276</u>