

NASHVILLE PUBLIC RADIO  
FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT  
JUNE 30, 2009 AND 2008

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INDEPENDENT AUDITORS' REPORT

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Nashville Public Radio  
Nashville, Tennessee

We have audited the accompanying statements of financial position of Nashville Public Radio as of June 30, 2009 and 2008, and the related statements of activities, cash flows and functional expenses for the years then ended. These financial statements are the responsibility of Nashville Public Radio's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 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 audits provide 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 Nashville Public Radio as of June 30, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*KraftCPAs PLLC*

Nashville, Tennessee  
November 20, 2009

NASHVILLE PUBLIC RADIO

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 866,148	\$ 756,120
Accrued interest receivable	12,035	12,793
Underwriting receivables	171,317	202,032
Contributions receivable, net of allowance for uncollectible pledges	15,291	8,709
Other receivables	9,316	32,823
Prepaid expenses	74	328
Prepaid programming costs	106,976	107,738
Escrow deposits - Note 6	94,211	89,331
Investments - Notes 4 and 12	6,904,392	8,690,076
Bond issue costs, net - Note 2	72,413	72,342
Property and equipment - Note 3	3,318,213	3,443,407
Federal Communication Commission licenses - Note 5	4,708,125	4,708,125
Perpetual trust - Note 9	42,149	50,563
<b>TOTAL ASSETS</b>	<b><u>\$ 16,320,660</u></b>	<b><u>\$ 18,174,387</u></b>
<b>LIABILITIES</b>		
Accounts payable	\$ 93,962	\$ 79,480
Accrued payroll	50,228	50,228
Deferred underwriting revenues	77,856	86,523
Long-term debt - Note 6	4,105,000	4,340,000
Derivative liability - interest rate swap - Notes 6 and 12	336,767	153,499
<b>TOTAL LIABILITIES</b>	<b><u>4,663,813</u></b>	<b><u>4,709,730</u></b>
<b>NET ASSETS</b>		
Unrestricted	4,705,476	4,719,755
Temporarily restricted - Note 8	6,909,222	8,694,339
Permanently restricted - Note 9	42,149	50,563
<b>TOTAL NET ASSETS</b>	<b><u>11,656,847</u></b>	<b><u>13,464,657</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 16,320,660</u></b>	<b><u>\$ 18,174,387</u></b>

See accompanying notes to financial statements.

NASHVILLE PUBLIC RADIO  
STATEMENTS OF ACTIVITIES  
YEARS ENDED JUNE 30, 2009 AND 2008

	2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUES, GAINS AND OTHER SUPPORT</b>				
Grants:				
Corporation for Public Broadcasting:				
Community Service Grant	\$ 280,830	\$ -	\$ -	\$ 280,830
Other foundation grants	37,440	-	-	37,440
Individual and membership contributions	1,597,989	-	-	1,597,989
Underwriting	1,574,988	-	-	1,574,988
In-kind support	7,554	-	-	7,554
Investment return designated for current operations - Note 4	5,989	450,000	-	455,989
Miscellaneous	22,664	-	-	22,664
Special events (Revenues of \$251,158, less direct cost of \$179,794)	71,364	-	-	71,364
Net assets released from restrictions - satisfaction of donor stipulations - Note 8	450,000	(450,000)	-	-
<b>TOTAL REVENUES, GAINS AND OTHER SUPPORT</b>	<b>4,048,818</b>	<b>-</b>	<b>-</b>	<b>4,048,818</b>
<b>EXPENSES</b>				
Program services:				
Programming and engineering	2,311,642	-	-	2,311,642
Supporting services:				
Management and general	470,438	-	-	470,438
Marketing and communications	58,519	-	-	58,519
Membership	469,346	-	-	469,346
Underwriting	568,744	-	-	568,744
<b>TOTAL EXPENSES</b>	<b>3,878,689</b>	<b>-</b>	<b>-</b>	<b>3,878,689</b>
Change in net assets from operations	170,129	-	-	170,129
<b>OTHER CHANGES</b>				
Investment return in excess of amounts designated for current operations (loss)	-	(1,785,117)	(8,414)	(1,793,531)
Loss on disposal of equipment	(1,140)	-	-	(1,140)
Change in value of derivative liability - interest rate swap - Note 6	(183,268)	-	-	(183,268)
<b>TOTAL OTHER CHANGES</b>	<b>(184,408)</b>	<b>(1,785,117)</b>	<b>(8,414)</b>	<b>(1,977,939)</b>
<b>CHANGE IN NET ASSETS</b>	<b>(14,279)</b>	<b>(1,785,117)</b>	<b>(8,414)</b>	<b>(1,807,810)</b>
<b>NET ASSETS - BEGINNING OF YEAR</b>	<b>4,719,755</b>	<b>8,694,339</b>	<b>50,563</b>	<b>13,464,657</b>
<b>NET ASSETS - END OF YEAR</b>	<b>\$ 4,705,476</b>	<b>\$ 6,909,222</b>	<b>\$ 42,149</b>	<b>\$ 11,656,847</b>

See accompanying notes to financial statements.

2008

<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
\$ 305,365	\$ -	\$ -	\$ 305,365
63,635	-	-	63,635
1,440,987	-	-	1,440,987
1,670,800	-	-	1,670,800
7,317	-	-	7,317
16,407	425,000	-	441,407
14,499	-	-	14,499
-	-	-	-
425,000	(425,000)	-	-
<u>3,944,010</u>	<u>-</u>	<u>-</u>	<u>3,944,010</u>
2,151,765	-	-	2,151,765
419,392	-	-	419,392
94,998	-	-	94,998
476,519	-	-	476,519
592,508	-	-	592,508
<u>3,735,182</u>	<u>-</u>	<u>-</u>	<u>3,735,182</u>
208,828	-	-	208,828
-	(844,763)	(6,440)	(851,203)
(10,459)	-	-	(10,459)
(187,820)	-	-	(187,820)
<u>(198,279)</u>	<u>(844,763)</u>	<u>(6,440)</u>	<u>(1,049,482)</u>
10,549	(844,763)	(6,440)	(840,654)
<u>4,709,206</u>	<u>9,539,102</u>	<u>57,003</u>	<u>14,305,311</u>
<u>\$ 4,719,755</u>	<u>\$ 8,694,339</u>	<u>\$ 50,563</u>	<u>\$ 13,464,657</u>

NASHVILLE PUBLIC RADIO

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (1,807,810)	\$ (840,654)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	154,791	159,251
Amortization	10,429	9,557
Loss on disposal of equipment	1,140	10,459
Realized and unrealized (gain) loss on investments	1,719,619	1,103,894
Change in value of derivative asset - interest rate swap	183,268	187,820
(Increase) decrease in:		
Accrued interest receivable	758	(1,230)
Underwriting receivables	30,715	(21,811)
Contributions receivable	(6,582)	7,844
Other receivables	23,507	(17,029)
Prepaid expenses	254	561
Prepaid programming costs	762	14,594
Escrow deposits	(4,880)	(6,185)
Increase (decrease) in:		
Accounts payable	14,482	13,685
Deferred underwriting revenues	(8,667)	8,493
<b>TOTAL ADJUSTMENTS</b>	<u>2,119,596</u>	<u>1,469,903</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>311,786</u>	<u>629,249</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(30,737)	(81,412)
Purchase of investments	(700,983)	(1,601,025)
Proceeds from sales of investments	775,462	1,359,168
Payments for bond issue costs	(10,500)	-
<b>NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>	<u>33,242</u>	<u>(323,269)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal payment on long-term debt	(235,000)	(230,000)
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<u>(235,000)</u>	<u>(230,000)</u>
<b>NET INCREASE IN CASH</b>	110,028	75,980
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<u>756,120</u>	<u>680,140</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 866,148</u>	<u>\$ 756,120</u>

See accompanying notes to financial statements.

NASHVILLE PUBLIC RADIO

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2009

	Program Services		Supporting Services			Total
	Programming and Engineering	Management and General	Marketing and Communications	Membership	Underwriting	
401(k) plan contribution	\$ 47,821	\$ 18,237	\$ 3,242	\$ 11,753	\$ -	\$ 81,053
Accounting services	-	28,712	-	-	-	28,712
All other programming	103,535	-	-	-	-	103,535
Amortization - bond costs	9,385	1,044	-	-	-	10,429
Audio streaming	12,821	-	-	-	-	12,821
Auto expenses	6,598	642	-	211	-	7,451
Bank fees	-	8,770	-	24,217	10,173	43,160
Bond interest expense	245,980	20,225	-	3,553	3,553	273,311
Bond loan cost	-	6,853	-	-	-	6,853
Consulting	-	1,727	-	-	-	1,727
Depreciation	124,961	14,130	-	7,850	7,850	154,791
E-mail distribution	4,799	-	-	-	-	4,799
Equipment purchases	6,122	131	137	-	-	6,390
Event production costs	-	-	-	4,897	-	4,897
Facility operations	32,340	8,341	-	4,634	4,634	49,949
Insurance - property and liability	19,527	5,669	-	3,150	3,149	31,495
Legal services	1,842	-	-	-	-	1,842
Mail preparation	2,492	-	-	29,841	-	32,333
Medical insurance premiums	109,908	38,380	5,234	20,935	-	174,457
Memberships	225	3,390	-	5,855	-	9,470
Miscellaneous employment costs	5,595	2,133	379	1,375	-	9,482
Miscellaneous	4,563	4,243	256	1,047	-	10,109
National Public Radio fees	430,193	-	-	-	-	430,193
NPR interconnect fee	7,100	-	-	-	-	7,100
Office equipment lease	-	9,197	-	-	-	9,197
Office supplies	-	5,631	-	23	-	5,654
Parts and repairs	7,672	324	-	99	-	8,095
Payroll taxes	48,073	18,469	3,345	12,048	-	81,935
Postage and shipping	4,986	3,615	-	25,464	-	34,065
Premiums	-	-	-	58,429	-	58,429
Printing	10,482	494	-	38,071	-	49,047
Promotional items	-	-	190	-	-	190
Property taxes	-	500	-	-	-	500
Public Radio International	225,373	-	-	-	-	225,373
Research	8,730	-	-	-	13,350	22,080
Salaries and wages	665,662	253,854	45,130	163,595	-	1,128,241
Software	10,045	3,308	516	10,394	-	24,263
Syndication	8,670	-	-	-	-	8,670
Telemarketing	-	-	-	31,359	-	31,359
Telephone	41,001	5,125	-	2,563	2,562	51,251
Temporary staffing	1,996	-	-	576	-	2,572
Tower lease	11,640	-	-	-	-	11,640
Tower utilities	46,935	-	-	-	-	46,935
Training	400	100	90	1,238	-	1,828
Travel	1,458	-	-	2,172	-	3,630
Underwriting sales management	-	-	-	-	519,476	519,476
Utilities	24,781	7,194	-	3,997	3,997	39,969
Wire service	17,931	-	-	-	-	17,931
	<u>\$ 2,311,642</u>	<u>\$ 470,438</u>	<u>\$ 58,519</u>	<u>\$ 469,346</u>	<u>\$ 568,744</u>	<u>\$ 3,878,689</u>

See accompanying notes to financial statements.

NASHVILLE PUBLIC RADIO  
STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2008

	Program Services		Supporting Services			Total
	Programming and Engineering	Management and General	Marketing and Communications	Membership	Underwriting	
401(k) plan contribution	\$ 44,764	\$ 17,280	\$ 6,462	\$ 13,980	\$ -	\$ 82,486
Accounting services	-	26,000	-	-	-	26,000
All other programming	95,975	-	-	-	-	95,975
Amortization - bond costs	8,596	961	-	-	-	9,557
Audio media	370	-	-	-	-	370
Audio streaming	12,189	-	-	-	-	12,189
Auto expenses	6,075	635	-	99	-	6,809
Bank fees	-	2,953	-	19,238	7,052	29,243
Bond interest expense	180,763	14,863	-	2,611	2,610	200,847
Bond loan cost	-	6,864	-	-	-	6,864
Consulting	1,200	-	-	-	-	1,200
Depreciation	129,563	14,062	-	7,813	7,813	159,251
E-mail distribution	4,125	-	-	-	-	4,125
Equipment purchases	1,284	1,754	-	-	-	3,038
Event production costs	-	-	-	8,146	-	8,146
Facility operations	28,945	7,881	-	4,378	4,378	45,582
Insurance - property and liability	19,097	5,544	-	3,080	3,080	30,801
Legal services	5,882	417	-	-	-	6,299
Mail preparation	4,434	-	-	31,415	-	35,849
Media space	-	-	200	-	-	200
Medical insurance premiums	95,205	35,500	1,613	29,046	-	161,364
Memberships	307	2,980	-	5,651	-	8,938
Miscellaneous employment costs	5,657	2,180	778	1,765	-	10,380
Miscellaneous	4,188	6,369	193	1,482	1,175	13,407
National Public Radio fees	451,657	-	-	-	-	451,657
NPR interconnect fee	6,900	-	-	-	-	6,900
Office equipment lease	-	7,015	-	-	-	7,015
Office supplies	-	5,790	-	-	-	5,790
Parts and repairs	28,907	-	-	-	207	29,114
Payroll taxes	42,099	16,221	5,793	13,132	-	77,245
Postage and shipping	5,095	3,127	-	25,935	-	34,157
Premiums	-	-	-	41,973	-	41,973
Printing	8,095	597	-	29,532	72	38,296
Property taxes	356	-	-	-	-	356
Public Radio International	216,604	-	-	-	-	216,604
Recruitment services	-	-	-	1,457	-	1,457
Research	12,385	-	-	-	12,500	24,885
Salaries and wages	580,099	223,525	79,830	180,948	-	1,064,402
Software	9,344	3,574	129	9,898	30	22,975
Syndication	8,681	-	-	-	-	8,681
Telemarketing	-	-	-	34,438	-	34,438
Telephone	35,797	4,475	-	2,237	2,237	44,746
Tower lease	11,640	-	-	-	-	11,640
Tower utilities	39,839	-	-	-	-	39,839
Training	1,220	695	-	3,123	-	5,038
Travel	1,631	1,124	-	1,251	-	4,006
Uncollectible receivables	-	-	-	-	342	342
Underwriting sales management	-	-	-	-	547,121	547,121
Utilities	24,192	7,006	-	3,891	3,891	38,980
Wire service	18,605	-	-	-	-	18,605
	<u>\$ 2,151,765</u>	<u>\$ 419,392</u>	<u>\$ 94,998</u>	<u>\$ 476,519</u>	<u>\$ 592,508</u>	<u>\$ 3,735,182</u>

See accompanying notes to financial statements.

NASHVILLE PUBLIC RADIO

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Nashville Public Radio (the "Organization") is a private, not-for-profit corporation established for the purpose of operating non-commercial radio broadcasting stations presenting educational, cultural and public interest programming in the Middle Tennessee area.

Financial Statement Presentation

The accompanying financial statements present the financial position and changes in net assets of the Organization on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Resources are classified as unrestricted, temporarily restricted or permanently restricted net assets, based on the existence or absence of donor-imposed restrictions, as follows:

- *Unrestricted net assets* are free of donor-imposed restrictions. All revenues, gains and losses that are not temporarily or permanently restricted by donors are included in this classification. All expenditures are reported in the unrestricted class of net assets, since the use of restricted contributions in accordance with the donors' stipulations results in the release of the restriction.
- *Temporarily restricted net assets* are limited as to use by donor-imposed restrictions that expire with the passage of time or that can be satisfied by use for the specific purpose.
- *Permanently restricted net assets* are amounts required by donors to be held in perpetuity, including gifts requiring that the principal be invested and the income or specific portions thereof be used for operations.

Cash and Cash Equivalents

For purposes of reporting cash flows, the Organization considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. Cash and cash equivalents that are designated for long-term investment are included in "Investments" in the statement of financial position.

NASHVILLE PUBLIC RADIO

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2009 AND 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Promises to Give

Contributions are recognized when the donor makes a promise to give to the Organization 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 time restriction expires, or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted and reported in the statement of activities as net assets released from restrictions.

An allowance for uncollectible contributions is provided based on management's estimate of uncollectible pledges and historical trends. Contributions receivable more than one year past due are charged off against the allowance. An allowance of \$29,663 has been recorded at June 30, 2009 (\$30,833 at June 30, 2008).

Investments

Investments in marketable securities are valued at their fair value in the statement of financial position. Fair value is the price that would be received to sell an asset (or paid to transfer a liability) in an orderly transaction between market participants at the measurement date. See Note 12 for discussion of fair value measurements.

Realized and unrealized gains and losses are recognized in current operations. Gains and losses recognized on investments are reported as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law.

The Organization invests in various investment securities that are exposed to various risks such as interest rate, market and credit risks. Because of the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the Organization's financial statements.

Bond Issue Costs and Amortization

Bond issue costs are capitalized and amortized by the interest method over the term of the related bond issue.

NASHVILLE PUBLIC RADIO

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2009 AND 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

Property and equipment are reported at cost or, in the case of donated property, at estimated fair value determined as of the date of receipt. The Organization's policy is to capitalize purchases with a cost of \$1,000 or more and an expected useful life greater than one year. Depreciation is calculated by the straight-line method over the estimated useful lives of individual assets, which range as follows:

Buildings	40 years
Broadcast transmission tower and equipment	3 to 20 years
Office furniture and equipment	3 to 7 years

Donated Equipment and Marketable Securities

Donated equipment, marketable securities and other noncash donations are recorded as contributions at their estimated fair value at the date of gift.

Federal Communications Commission Licenses

Federal Communications Commission (FCC) licenses are valued at either cost or estimated fair value at the date contributed and are reflected net of amortization accumulated prior to the adoption of Statement of Financial Accounting Standards ("SFAS") No. 142 in 2003, and net of any impairment. The Organization evaluates the valuation of licenses annually for potential impairment.

Underwriting Receivables and Deferred Underwriting Revenues

Underwriting receivables consist of amounts due from underwriters of programming. Deferred underwriting revenue is recorded when underwriting prepayments are received. Underwriting revenue is recognized in the period the underwriting announcements take place. Most underwriters are in the Middle Tennessee area.

Derivatives

The Organization utilizes derivative financial instruments to manage its interest rate exposure by reducing the impact of fluctuating interest rates on its debt service requirements. Derivatives are recognized as either assets or liabilities in the statement of financial position at fair value. Changes in the fair value of derivatives are recognized currently in the statement of activities.

NASHVILLE PUBLIC RADIO

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2009 AND 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising

The Organization expenses advertising costs as incurred.

Donated Goods and Services

In-kind support is reported as revenue and expense in the statement of activities. This amount represents the estimated fair value of goods and services donated to the Organization that otherwise would have been purchased.

A number of volunteers donate significant amounts of time to the Organization without compensation. The fair value of these services is not reflected in the accompanying financial statements, since there is no objective basis on which to measure the value of such services.

Income Tax Status

The Organization qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2).

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 certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and certain reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Events Occurring After Reporting Date

The Organization has evaluated events and transactions that occurred between June 30, 2009 and November 20, 2009, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

NASHVILLE PUBLIC RADIO

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2009 AND 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Implementation of FSP No. SFAS 117-1

In August 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) No. SFAS 117-1, *Endowments of Not for Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (FSP No. SFAS 117-1). FSP No. SFAS 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). FSP No. SFAS 117-1 also requires additional disclosures about the organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds) whether or not the organization is subject to UPMIFA.

The Organization's endowment consists of a fund transferred in 1996 by the WPLN Educational Foundation which outlines certain parameters by which the fund is managed.

*Investment return objective, risk parameters and strategies* - The Organization has adopted investment and spending policies, approved by the Board of Directors, to establish asset allocation targets, investment objectives and guidelines and the degree of investment risk the Board of Directors deem acceptable. The purpose of the endowment's investment policy is to generate sufficient long-term growth of capital, without undue exposure to risk, to provide a sustainable level of spending distributions, as well as enhance the real purchasing power of the investments.

The strategic asset allocation among a broad range of asset classes is designed to achieve the long-term investment objectives of the endowment. The overall target asset allocation, which was derived from an asset allocation study specific to the endowment's investment objectives, is designed to reflect the following structure:

<u>Asset Class</u>	<u>Target Asset Mix</u>
Domestic large cap equity	30%
Domestic small cap equity	15%
International equity	<u>15%</u>
Total equity	60%
Fixed income	<u>40%</u>
Total	<u>100%</u>

NASHVILLE PUBLIC RADIO

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2009 AND 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Implementation of FSP No. SFAS 117-1 (Continued)

Asset allocations are monitored and reviewed on an ongoing basis to determine whether it is necessary to rebalance the assets to ensure that the overall target mix is maintained. Furthermore, the asset allocation is reviewed on an ongoing basis to determine whether the asset mix appropriately reflects the investment objectives of the endowment.

*Spending policy* - The Organization has a policy of appropriating for distribution an amount based on a twelve quarter previous average of the market value of the total fund, multiplied by the current year's spending rate, which was 5.0% for 2009. Distributions are made at the beginning of each quarter in the amount of one-fourth the annual calculated amount.

Recent Accounting Pronouncement

In July 2006, the FASB issued Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109*. FIN 48 provides guidance regarding the recognition, measurement, presentation and disclosure in the financial statements of tax positions taken or expected to be taken on a tax return, including positions that the organization is exempt from income taxes or not subject to income taxes on unrelated business income. The cumulative effect of changes arising from the initial application of FIN 48 is required to be reported as an adjustment to the opening balance of net assets in the period of adoption. In December 2008, the FASB provided for a deferral of the effective date of FIN 48 for certain nonpublic enterprises to annual financial statements for fiscal years beginning after December 15, 2008. The Organization has elected this deferral and, accordingly, will be required to adopt FIN 48 in its June 30, 2010 annual financial statements. Prior to adopting FIN 48, the Organization will continue to evaluate uncertain tax positions and related income tax contingencies under SFAS No. 5, *Accounting for Contingencies*. SFAS No. 5 requires annual accrual for losses that are considered probable and can be reasonably estimated, or disclosure for losses that are considered reasonably possible and/or cannot be reasonably estimated.

The Organization is currently evaluating the impact, if any, of the adoption of this standard on the financial statements.

NOTE 2 - BOND ISSUE COSTS

Capitalized bond issue costs consisted of the following at June 30:

	<u>2009</u>	<u>2008</u>
Bond issue costs	\$ 107,500	\$ 97,000
Less: accumulated amortization	<u>(35,087)</u>	<u>(24,658)</u>
	<u>\$ 72,413</u>	<u>\$ 72,342</u>

NASHVILLE PUBLIC RADIO

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2009 AND 2008

NOTE 2 - BOND ISSUE COSTS (CONTINUED)

Amortization scheduled over the next five fiscal years is as follows:

Year ending June 30,

2010	\$	9,809
2011		9,205
2012		8,569
2013		7,908
2014		7,222

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of June 30:

	<u>2009</u>	<u>2008</u>
Land	\$ 576,467	\$ 576,467
Buildings	2,683,790	2,667,869
Interest in jointly-owned broadcast transmission tower and related land	547,967	547,967
Broadcast transmission tower and related equipment	611,805	611,805
Broadcast equipment	586,886	592,392
Office furniture and equipment	<u>299,516</u>	<u>294,032</u>
	5,306,431	5,290,532
Less: accumulated depreciation	<u>(1,988,218)</u>	<u>(1,847,125)</u>
	<u>\$ 3,318,213</u>	<u>\$ 3,443,407</u>

The Organization and two other radio stations own equal one-third undivided interests in a certain broadcast transmission tower and related land. The Organization's interest is included at cost in property and equipment and depreciated over its estimated useful life.

NASHVILLE PUBLIC RADIO

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2009 AND 2008

NOTE 4 - INVESTMENTS

Investments consist of the following as of June 30:

	2009		2008	
	Cost	Fair Value	Cost	Fair Value
Cash	\$ 6	\$ 6	\$ 2	\$ 2
Mutual funds	<u>7,938,391</u>	<u>6,904,386</u>	<u>8,303,180</u>	<u>8,690,074</u>
	<u>\$ 7,938,397</u>	<u>\$ 6,904,392</u>	<u>\$ 8,303,182</u>	<u>\$ 8,690,076</u>

The following schedule summarizes the investment return and its classification in the statement of activities for the year ended June 30, 2009:

	2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Investment income	\$ 5,989	\$ 376,088	\$ -	\$ 382,077
Realized and unrealized net gain (loss) on investments	<u>-</u>	<u>(1,711,205)</u>	<u>(8,414)</u>	<u>(1,719,619)</u>
	<u>\$ 5,989</u>	<u>\$ (1,335,117)</u>	<u>\$ (8,414)</u>	<u>\$ (1,337,542)</u>
Investment return designated for current operations	\$ 5,989	\$ 450,000	\$ -	\$ 455,989
Investment return in excess of amounts designated for current operations (loss)	<u>-</u>	<u>(1,785,117)</u>	<u>(8,414)</u>	<u>(1,793,531)</u>
	<u>\$ 5,989</u>	<u>\$ (1,335,117)</u>	<u>\$ (8,414)</u>	<u>\$ (1,337,542)</u>

Investment income has been reduced by investment fees of \$28,925 for the year ended June 30, 2009.

NASHVILLE PUBLIC RADIO

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2009 AND 2008

NOTE 4 - INVESTMENTS (CONTINUED)

The following schedule summarizes the investment return and its classification in the statement of activities for the year ended June 30, 2008:

	2008			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Investment income	\$ 16,407	\$ 677,691	\$ -	\$ 694,098
Realized and unrealized net gain (loss) on investments	-	(1,097,454)	(6,440)	(1,103,894)
	\$ 16,407	\$ (419,763)	\$ (6,440)	\$ (409,796)
Investment return designated for current operations	\$ 16,407	\$ 425,000	\$ -	\$ 441,407
Investment return in excess of amounts designated for current operations (loss)	-	(844,763)	(6,440)	(851,203)
	\$ 16,407	\$ (419,763)	\$ (6,440)	\$ (409,796)

Investment income has been reduced by investment fees of \$35,551 for the year ended June 30, 2008.

NOTE 5 - FEDERAL COMMUNICATIONS COMMISSION LICENSES

Federal Communications Commission (FCC) licenses, all in Tennessee, consist of the following:

WPLN-FM 90.3, Nashville  
WPLN-AM 1430, Nashville  
WHRS-FM 91.7, Cookeville  
WTML-FM 91.5, Tullahoma

The stations in Cookeville and Tullahoma are repeater stations. In accordance with SFAS No. 142, FCC licenses are reflected net of accumulated amortization of \$291,875 that was recorded prior to the adoption of that standard. At June 30, 2009 and 2008, the Organization tested the licenses for impairment and determined there was no impairment.

NASHVILLE PUBLIC RADIO

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2009 AND 2008

NOTE 6 - LONG-TERM DEBT

Long-term debt consists of the following as of June 30:

	<u>2009</u>	<u>2008</u>
Industrial Development Board of the Metropolitan Government of Nashville and Davidson County, Tennessee Adjustable Rate Revenue Refunding Bonds, Nashville Public Radio Project, Series 2005, secured by real property, furniture, fixtures and equipment, and FCC licenses; maturing in 2022	<u>\$ 4,105,000</u>	<u>\$ 4,340,000</u>

Principal payments over the next five fiscal years and thereafter are as follows:

<u>Year Ending June 30,</u>	
2010	\$ 245,000
2011	260,000
2012	270,000
2013	280,000
2014	290,000
Thereafter	<u>2,760,000</u>
	<u>\$ 4,105,000</u>

The Organization has entered into a remarketing agreement with a bank. The bank is responsible for determining the variable interest rate on the bonds and remarketing the bonds tendered or required to be tendered by the agreement. Interest rates on the bonds may vary based on market conditions.

Interest rate risk on the bond issue is hedged through two interest rate swaps that do not run concurrently. Details of the two swaps are as follows:

The first swap had an initial notional amount of \$4,850,000 that is reduced as the principal amount outstanding on the bond issue is reduced. The swap terminates in April 2012. The Organization pays 3.78% interest on the notional amount and receives interest at the SIFMA Municipal Swap Index rate. The fair value of the swap agreement at June 30, 2009, was a liability of \$242,906 (liability of \$126,398 at June 30, 2008).

NASHVILLE PUBLIC RADIO

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2009 AND 2008

NOTE 6 - LONG-TERM DEBT (CONTINUED)

The second swap becomes effective in April 2012, and will have an initial notional amount of \$3,330,000 that will be reduced as the principal amount outstanding on the bond issue is reduced. The swap terminates in April 2022. The Organization pays 3.70% interest on the notional amount and receives interest at 70% of LIBOR. The fair value of the swap agreement at June 30, 2009, was a liability of \$93,861 (liability of \$27,101 at June 30, 2008).

The long-term debt agreement contains restrictive covenants requiring the Organization to maintain certain minimum balances and financial ratios. Escrow deposits restricted for repayment of the debt are also required under the agreement.

NOTE 7 - CONCENTRATIONS OF CREDIT RISK

The Organization maintains cash accounts at financial institutions whose accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to statutory limits. As of June 30, 2009, all noninterest bearing cash accounts of the Organization were fully insured.

The Organization purchases essential and unique programs from National Public Radio and has licenses from the Federal Communications Commission.

NOTE 8 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of donor restricted endowment funds that were contributed to the Organization by the WPLN Educational Foundation. The Organization may transfer up to five percent of the average market value of the investment balance for the previous thirty-six months from temporarily restricted to unrestricted net assets. For the year ended June 30, 2009, the Organization transferred \$450,000 to unrestricted net assets (\$425,000 for the year ended June 30, 2008). The Organization may also spend additional amounts of the temporarily restricted investments for its operations or activities subject to approval by 85% of the Organization's voting Board of Directors.

NASHVILLE PUBLIC RADIO

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2009 AND 2008

NOTE 8 - TEMPORARILY RESTRICTED NET ASSETS (CONTINUED)

A summary of the changes in donor restricted endowment net assets follows for the years ended June 30:

	<u>2009</u>	<u>2008</u>
Endowment net assets - beginning of year	\$ 8,694,339	\$ 9,539,102
Investment income, less related fees	376,088	677,691
Realized and unrealized gains (losses)	(1,711,205)	(1,097,454)
Transfers to unrestricted net assets - spending rule	<u>(450,000)</u>	<u>(425,000)</u>
Endowment net assets - end of year	<u>\$ 6,909,222</u>	<u>\$ 8,694,339</u>

NOTE 9 - PERMANENTLY RESTRICTED NET ASSETS

A donor has established a perpetual trust administered by a third party for the benefit of the Organization. Under the terms of the trust, the Organization has the irrevocable right to receive the income earned on a portion of the trust in perpetuity. The income is unrestricted. At June 30, 2009, the fair market value of the Organization's beneficial interest in the assets in the trust was \$42,149 (\$50,563 at June 30, 2008). The change in value of the perpetual trust was a decrease of \$8,414 for the year ended June 30, 2009 (decrease of \$6,440 for the year ended June 30, 2008).

NOTE 10 - SUPPLEMENTAL CASH FLOW INFORMATION

The Organization made interest expense payments of \$251,154 for the year ended June 30, 2009 (\$200,847 for the year ended June 30, 2008).

NOTE 11 - RETIREMENT PLAN

The Organization provides a 401(k) profit sharing plan for its employees. Employees are eligible to participate after 30 days of employment. The plan provides for a matching contribution up to 7.5% of compensation paid by the Organization. The Organization may also make discretionary profit sharing contributions. Total contributions made to the plan by the Organization amounted to \$81,053 for the year ended June 30, 2009 (\$82,486 for the year ended June 30, 2008).

NASHVILLE PUBLIC RADIO

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2009 AND 2008

NOTE 12 - FAIR VALUE MEASUREMENTS

SFAS No. 157, *Fair Value Measurements*, which was effective July 1, 2008, establishes a framework for measuring fair value for financial assets and financial liabilities. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under SFAS No. 157 are described below.

Level 1      Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2      Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by the observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3      Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

NASHVILLE PUBLIC RADIO

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2009 AND 2008

NOTE 12 - FAIR VALUE MEASUREMENTS (CONTINUED)

Financial assets and liabilities measured at fair value on a recurring basis include the following:

*Mutual funds* - valued at the net asset value of shares held by the Organization at year end.

*Perpetual trust* - valued at the fair market value of the Organization's beneficial interest in assets administered by a third party.

*Derivative liability- interest rate swap* - valued utilizing bank quotations.

The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of June 30, 2009, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	<u>Level 1</u> <u>Inputs</u>	<u>Level 2</u> <u>Inputs</u>	<u>Level 3</u> <u>Inputs</u>
<u>Financial Assets:</u>			
Mutual funds	\$ 6,904,392	\$ -	\$ -
Perpetual trust	\$ -	\$ 42,149	\$ -
<u>Financial Liabilities:</u>			
Derivative liability - interest rate swap	\$ -	\$ 336,767	\$ -