

BACK PORCH RADIO BROADCASTING, INC.

**FINANCIAL STATEMENTS WITH
SUPPLEMENTARY INFORMATION**

June 30, 2006 and 2005

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Back Porch Radio Broadcasting, Inc.
Madison, Wisconsin

We have audited the accompanying statements of financial position of Back Porch Radio Broadcasting, Inc. as of June 30, 2006 and 2005, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our 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 the 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 Back Porch Radio Broadcasting, Inc. as of June 30, 2006 and 2005, 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Wegner LLP

Wegner LLP
September 12, 2006



BACK PORCH RADIO BROADCASTING, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 250,002	\$ 277,965
Certificates of deposit	157,991	152,841
Accounts receivable	13,135	5,054
Pledges receivable	45,590	65,370
Prepaid expenses	11,789	15,837
Inventory	<u>10,691</u>	<u>8,519</u>
Total current assets	489,198	525,586
PROPERTY AND EQUIPMENT		
Land	13,000	13,000
Buildings and improvements	196,704	196,704
Broadcasting and station equipment	<u>425,899</u>	<u>412,014</u>
Property and equipment	635,603	621,718
Less accumulated depreciation	<u>454,475</u>	<u>426,289</u>
Property and equipment - net	<u>181,128</u>	<u>195,429</u>
Total assets	<u><u>\$ 670,326</u></u>	<u><u>\$ 721,015</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	428	66,756
Accrued expenses	13,203	13,522
Deferred revenue	5,273	4,914
Bonds payable	<u>2,250</u>	<u>2,250</u>
Total current liabilities	21,154	87,442
NET ASSETS		
Undesignated	270,587	255,018
Board designated	<u>375,000</u>	<u>375,000</u>
Total unrestricted	645,587	630,018
Temporarily restricted	<u>3,585</u>	<u>3,555</u>
Total net assets	<u>649,172</u>	<u>633,573</u>
Total liabilities and net assets	<u><u>\$ 670,326</u></u>	<u><u>\$ 721,015</u></u>

BACK PORCH RADIO BROADCASTING, INC.
STATEMENTS OF ACTIVITIES
Years ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
UNRESTRICTED NET ASSETS		
SUPPORT, REVENUE AND RECLASSIFICATIONS		
Contributions	\$ 335,297	\$ 373,447
CPB grant	67,154	76,386
Donated equipment and services	17,010	4,425
Special events	35,188	32,295
Program underwriting	41,200	40,603
Other income	17,456	7,051
	<u>513,305</u>	<u>534,207</u>
Net assets released from restrictions		
Satisfaction of program restrictions	25,455	25,029
	<u>538,760</u>	<u>559,236</u>
EXPENSES		
Program services		
Programming and production	123,546	128,657
Broadcasting	147,593	119,956
Program information and promotion	27,407	24,722
	<u>298,546</u>	<u>273,335</u>
Supporting activities		
Management and general	92,325	82,850
Fundraising and membership development	93,573	45,146
Underwriting and grant solicitation	38,747	77,118
	<u>224,645</u>	<u>205,114</u>
Total expenses	<u>523,191</u>	<u>524,152</u>
Change in unrestricted net assets	15,569	35,084
TEMPORARILY RESTRICTED NET ASSETS		
CPB grant	25,485	26,713
Net assets released from restrictions		
Satisfaction of program restrictions	(25,455)	(25,029)
	<u>30</u>	<u>1,684</u>
Change in temporarily restricted net assets		
Change in net assets	15,599	36,768
Net assets - beginning of year	<u>633,573</u>	<u>596,805</u>
Net assets - end of year	<u>\$ 649,172</u>	<u>\$ 633,573</u>

BACK PORCH RADIO BROADCASTING, INC.
STATEMENTS OF CASH FLOWS
Years ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 15,599	\$ 36,768
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	28,186	21,199
Donated equipment	(13,885)	-
Change in allowance for uncollectible pledges	513	5,677
(Increase) decrease in assets		
Accounts receivable	(8,081)	(3,281)
Pledges receivable	19,267	(53,192)
Prepaid expenses	4,048	(3,609)
Inventory	(2,172)	(2,293)
Increase (decrease) in liabilities		
Accounts payable	(66,328)	65,259
Accrued expenses	(319)	3,151
Deferred revenue	359	2,795
Net cash provided by (used in) operating activities	<u>(22,813)</u>	<u>72,474</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of certificate of deposit	(5,150)	(1,882)
Purchases of property and equipment	-	(85,015)
Net cash used in investing activities	<u>(5,150)</u>	<u>(86,897)</u>
Net change in cash	<u>(27,963)</u>	<u>(14,423)</u>
Cash - beginning of year	<u>277,965</u>	<u>292,388</u>
Cash - end of year	<u>\$ 250,002</u>	<u>\$ 277,965</u>
SUPPLEMENTAL DISCLOSURES		
Noncash investing and financing activities		
Donated equipment	<u>\$ 13,885</u>	<u>\$ -</u>

BACK PORCH RADIO BROADCASTING, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

Back Porch Radio Broadcasting, Inc. (WORT) is a not-for-profit radio station that broadcasts from Madison, Wisconsin under the call letters WORT-FM. WORT began operations in 1975 and offers a wide variety of music and community-oriented broadcasts. The station is non-commercial and depends primarily upon contributions from the general public and grants from the Corporation for Public Broadcasting (CPB) for funding. The following summary of significant accounting policies is presented to enhance the usefulness of the financial statements to the reader.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and revenue, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of WORT and changes therein are classified and reported as follows:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed restrictions.

Board Designated Net Assets - Unrestricted net assets subject to self-imposed limits by action of the Board of Directors. The Board has designated \$175,000 as an operating reserve. In addition, WORT received a \$200,000 donation in 2003, which the Board designated in the year ending June 30, 2007 as the Independence Fund.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed restrictions that may or will be met, either by action of WORT and/or by passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Temporarily restricted net assets consists of a CPB grant for program acquisition.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Certificates of Deposit

Certificates of deposit are stated at cost, which approximates fair value.

Accounts Receivable

WORT considers all accounts receivable to be fully collectible. Accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when that determination is made.

BACK PORCH RADIO BROADCASTING, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Pledges Receivable

Pledges receivable consist of amounts due from listener sponsors for recent pledge drives and grants from government entities, which are all due within one year. Pledges receivable are shown net of an allowance for uncollectible pledges of \$8,869 and \$8,356 for the years ended June 30, 2006 and 2005. This amount is based on the collection of pledges from previous pledge drives. Past experience shows that about 4% of pledges made are not collected.

Inventory

Inventory is valued at lower of cost or market on the first-in, first-out (FIFO) method. Inventory consists of parts for use in equipment repairs and premium items to be given to donors.

Property and Equipment

Purchases of property and equipment that exceed \$1,000 are capitalized at cost and depreciated using the straight-line method over the assets' estimated useful lives. Certain purchases of equipment are made with grant funds. In the event the grant terminates in future years, the equipment may have to be returned to the grantor.

Property and equipment, if donated, is recorded as support at its estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the asset to a specific purpose. Assets donated with explicit restrictions regarding their use, and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor restrictions regarding how long those donated assets must be maintained, WORT reports expirations of donor restrictions when the donated or acquired assets are placed in service and reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Revenue Recognition

Funds provided by the grantor or other outside party for particular services are deemed to be earned and reported as revenue when WORT has incurred expenses in compliance with specific requirements. Such amounts received, but not earned, are reported as deferred revenue. Such amounts earned, but not received, are reported as accounts receivable.

Contributions

Contributions are recognized when the donor makes a promise to give that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are classified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

BACK PORCH RADIO BROADCASTING, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes

WORT is a nonprofit public charity organized under Internal Revenue Code Section 501(c)(3) and is therefore not subject to federal and state income or franchise taxes.

Functional Allocation of Expenses

The costs of providing WORT's programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the program services and supporting activities benefited. The following programs and supporting activities are included in the accompanying financial statements:

Programming and Production – Includes program acquisition costs and the expenses related to the production of non-commercial, educational radio programming.

Broadcasting – Includes radio tower rental, broadcasting equipment costs and other expenses related to the dissemination of non-commercial, educational radio programming.

Program Information and Promotion – Includes expenses related to the dissemination of information about non-commercial, educational radio programming to members and the public at large.

Management and General – Includes accounting and production of financial reports, development of the annual budget, supervision of all departments and maintenance of personnel records.

Fundraising and Membership Development – Includes the cultivation of new members, fundraising events, and member mailings.

Underwriting and Grant Solicitation – Includes the costs associated with grant writing and solicitation of underwriters.

NOTE 2 – ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2006 and 2005 consisted of the following:

	<u>2006</u>	<u>2005</u>
Underwriting services to local businesses	\$ 5,560	\$ 5,054
Other receivable	<u>7,575</u>	<u>-</u>
Accounts receivable	<u>\$ 13,135</u>	<u>\$ 5,054</u>

BACK PORCH RADIO BROADCASTING, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 3 – BONDS PAYABLE

Debt consists of various building bonds payable totaling \$2,250 issued to the general public in denominations of \$250 - \$1,000 at rates between 8.5% and 9.5% for terms between 1 year and 5 years with interest compounded annually and payable upon maturity, secured by real estate. All of the bonds have matured.

NOTE 4 – RETIREMENT PLAN

WORT maintains a SIMPLE IRA retirement plan for its employees. Employer contributions to the plan are 2% of the employee's annual compensation, and these contributions vest immediately. Retirement expense for the years ended June 30, 2006 and 2005 was \$4,379 and \$4,855.

NOTE 5 – LEASES

WORT leases tower space for its antenna used in broadcasting for \$1,663 per month under an annually renewable lease that expires January 31, 2007. Total rent expense for the years ended June 30, 2006 and 2005 was \$18,899 and \$17,181. Future minimum lease payments for the year ending June 30, 2007 are \$11,641.

NOTE 6 – DONATED EQUIPMENT AND SERVICES

The estimated fair value of donated equipment and services recorded in the financial statements as follows:

	2006	2005
Donated equipment	\$ 14,785	\$ 1,150
Donated services		
Website and e-mail services	2,225	2,225
Planning consulting	-	1,050
	\$ 17,010	\$ 4,425

During the year ended June 30, 2006, satellite equipment, valued at \$13,885, was donated from the Public Radio Satellite System as part of the FISPO (Future Interconnection System Project Office) program and is used for broadcasting. A computer, valued at \$900 was donated from an individual, and the website and email services are used for station administration.

During the year ended June 30, 2005, stereo equipment, valued at \$250, used for broadcasting, and a computer, valued at \$900, used for administration, were donated from individuals. The website and consulting services were donated from individuals and a local business and were used for station administration.

WORT relies on volunteers from the community to operate the station and receives in excess of 23,500 hours per year of volunteer service. The value of this service is not reflected in the financial statements as it does not meet the criteria for recognition set forth in SFAS 116.

BACK PORCH RADIO BROADCASTING, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 7 – CONCENTRATIONS

Economic Dependency

WORT receives a substantial amount of its support from the Corporation for Public Broadcasting (CPB) and from public donations. CPB has the authority to audit the costs associated with its grants. A significant reduction in the level of this support may have an adverse effect on WORT's programs and activities.

Broadcasting License

WORT is licensed to broadcast by the Federal Communications Commission. This license is subject to periodic review and renewal by the Commission. The current license is for an 8-year term ending December 1, 2012.

Concentration of Credit Risk

WORT maintains cash balances at several financial institutions. The Federal Deposit Insurance Corporation insures accounts at each institution up to \$100,000. WORT maintains deposits in financial institutions that at times may exceed federally insured limits.

Equipment Grants

A substantial portion of the station's broadcasting equipment was purchased under grants funded by the Public Telecommunications Facilities Program (PTFP). In order to insure that facilities funded under the PTFP will continue to be used to provide public telecommunications services, a ten-year Federal interest (lien) on the facilities is required. The PTFP equipment held by WORT as of June 30, 2006 is recorded at a cost of \$126,214, with accumulated depreciation of \$112,430.

Collective Bargaining Agreement

WORT has a collective bargaining agreement with employee union SEIU Local 150 that covers full time staff. The agreement in effect at June 30, 2006 is up for renewal on June 30, 2009.

BACK PORCH RADIO BROADCASTING, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
Year ended June 30, 2006

	<u>Programming & Production</u>	<u>Broadcasting</u>	<u>Program Information & Promotion</u>	<u>Total Program Services</u>
Personnel	\$ 76,927	\$ 84,766	\$ 23,666	\$ 185,359
Occupancy	8,134	7,980	2,123	18,237
Supplies and administrative expenses	1,909	1,862	495	4,266
Equipment, rental, and maintenance	8,277	26,563	46	34,886
Programs and subscriptions	21,427	-	50	21,477
Printing and postage	390	275	864	1,529
Professional fees	-	-	-	-
Other expenses	1,179	-	-	1,179
Travel and training	1,232	80	-	1,312
Donated equipment	900	-	-	900
Donated services	556	612	163	1,331
Depreciation	2,615	25,455	-	28,070
Total expenses	<u><u>\$ 123,546</u></u>	<u><u>\$ 147,593</u></u>	<u><u>\$ 27,407</u></u>	<u><u>\$ 298,546</u></u>

<u>Management and General</u>	<u>Fundraising & Membership Development</u>	<u>Underwriting and Grant Solicitation</u>	<u>Total Supporting Activities</u>	<u>Total Expenses</u>
\$ 54,205	\$ 44,946	\$ 31,857	\$ 131,008	\$ 316,367
5,039	4,231	2,384	11,654	29,891
7,554	18,250	556	26,360	30,626
4,389	93	52	4,534	39,420
3,725	35	180	3,940	25,417
3,159	16,762	82	20,003	21,532
11,340	990	-	12,330	12,330
693	7,917	1,334	9,944	11,123
1,719	24	2,119	3,862	5,174
-	-	-	-	900
386	325	183	894	2,225
116	-	-	116	28,186
<u>\$ 92,325</u>	<u>\$ 93,573</u>	<u>\$ 38,747</u>	<u>\$ 224,645</u>	<u>\$ 523,191</u>