



91.7 FM Ann Arbor/Detroit
104.1 FM West Michigan
91.1 FM Flint

Your **NPR** News Station 

**FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 and 2015
with
REPORT OF INDEPENDENT AUDITORS**

WUOM/WVGR/WFUM
(A PUBLIC TELECOMMUNICATIONS ENTITY
OPERATED BY THE UNIVERSITY OF MICHIGAN)

June 30, 2016 and 2015

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Report of Independent Auditors

To The Regents of the University of Michigan

We have audited the accompanying financial statements of WUOM/WVGR/WFUM (“Michigan Radio”), which consists of certain departments of the University of Michigan, as of and for the years ended June 30, 2016 and 2015 and the related notes to the financial statements which consist of the statement of net position and the related statements of revenues, expenses and changes in net position and of cash flows.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors’ Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to Michigan Radio’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Michigan Radio’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Michigan Radio at June 30, 2016 and 2015, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

As discussed in Note 1, the financial statements of Michigan Radio present only the net position, revenues, expenses and changes in net position, and cash flows of that portion of the financial reporting entity of the University of Michigan that is attributable to the transactions of Michigan Radio. They do not purport to, and do not, present fairly the financial position of the University of Michigan at June 30, 2016 and 2015, and the changes in its financial position or its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying management's discussion and analysis on pages 3 through 16 is required by accounting principles generally accepted in the United States of America to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

PricewaterhouseCoopers LLP

November 30, 2016

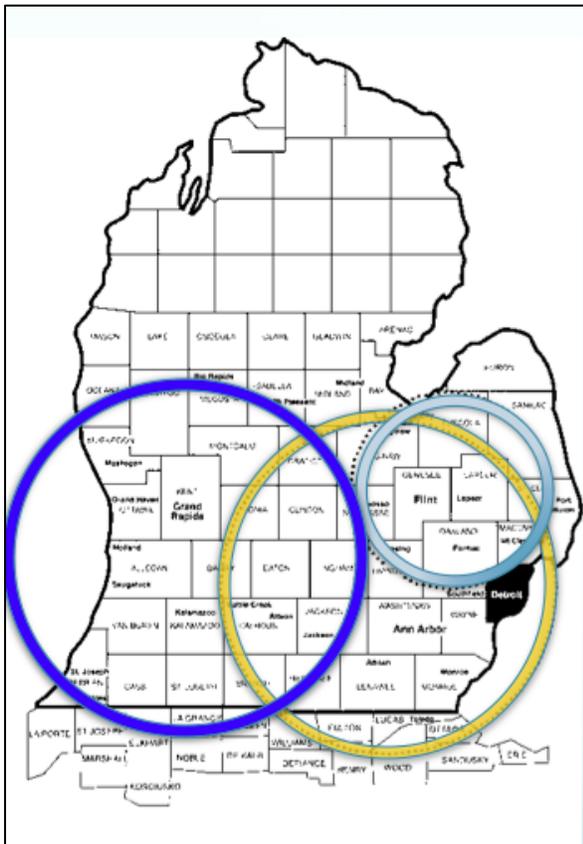
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Management’s Discussion and Analysis (Unaudited)

Introduction

The following discussion and analysis provides an overview of the financial position of WUOM/WVGR/WFUM (“Michigan Radio”) at June 30, 2016 and 2015 and its activities for the three fiscal years ended June 30, 2016. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

Michigan Radio is a network of three public radio stations in southern Michigan licensed by the Federal Communications Commission and operates under the control of the Regents of the University of Michigan (the “University”). Michigan Radio, a founding member of National Public Radio (“NPR”), serves as a vital outlet for the southern Michigan region by providing a premier radio service of award-winning news, talk and entertainment programming 24 hours a day. With well-known national programs from NPR, Public Radio International and American Public Media, Michigan Radio provides a distinctive combination of national and local programming to a statewide audience from its studios in Ann Arbor and news bureaus in Detroit, Grand Rapids and mid-Michigan.



- With its main studios located in Ann Arbor, Michigan Radio comprises: WUOM - Ann Arbor (91.7 FM, 93 KW), WVGR - Grand Rapids (104.1 FM, 96 KW) and WFUM - Flint (91.1 FM, 17.5 KW). All three signals also offer their markets a high definition (“HD”) stereo simulcast of Michigan Radio on HD-1 signals. Combined, the three stations provide service to most of the southern two-thirds of Michigan’s Lower Peninsula.
- In 2016, Michigan Radio continues to be the most listened to public radio service in Michigan, with approximately 484,400 listeners of our broadcast signals each week. (Source: National Regional Database, Nielsen Audio, Spring 2016, Persons 12+, M-Su 6a-12m)

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Management’s Discussion and Analysis (Unaudited)--Continued

In the digital space, Michigan Radio offers its online news and information portal, michiganradio.org, and its audio streaming service. The access to news and information content on these essential platforms allows Michigan Radio to serve an audience beyond the broadcast signal, extending throughout the state and the globe. In 2016, traffic to michiganradio.org topped 3.75 million users, with over 10.1 million total page views. Compared to 2015, users have grown by 84 percent and page views are up 81 percent. Another online metric introduced in the past year is “sessions,” defined as a group of interactions one user takes within a given time frame on your website (Google Analytics defaults that time frame to 30 minutes). In 2016, michiganradio.org sessions totaled 6.5 million, an increase of 87 percent over the prior year. *(Source: Google Analytics Audience Overview, All Sessions, michiganradio.org, July 1, 2015 to June 20, 2016).*

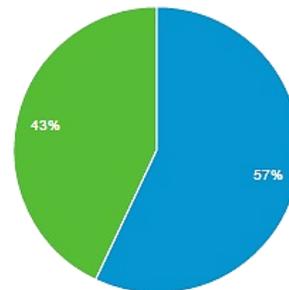
The driving forces that produced impressive overall online growth include the dominant local news story of the last several years, the Flint Water Crisis, about which Michigan Radio produced breakthrough investigative content and award-winning reporting. In response to this notable investigative journalism achievement, the coverage from Michigan Radio garnered statewide and national audiences, resulting in public media and commercial media attention. On the heels of the Flint Water Crisis story, the U.S. presidential primary and general election coverage produced by NPR and Michigan Radio brought heightened engagement and awareness to this critical election cycle.

Michigan Radio’s online audio streaming service also continues to be popular. Average unique listeners is calculated by unique IP address and cumulative audience (“cume”) is the number of different persons who listen to a station for at least five minutes during any time period. In 2016, Michigan Radio had an average monthly cume of 87,227, as compared to the 2015 average monthly unique connections of 104,819, a decline of 17 percent. The reason for this temporary decline comes from changing to a new streaming analytics provider, Triton Digital, which utilizes cume as an audience measurement instead of unique connections.

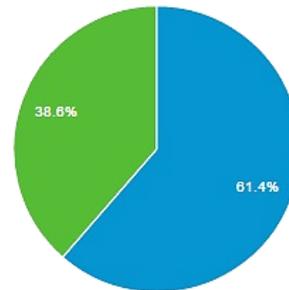
Returning visitor growth to michiganradio.org

■ New Visitor ■ Returning Visitor

Jul 1, 2015 - Jun 20, 2016



Jul 1, 2014 - Jun 20, 2015



Returning visitor growth to michiganradio.org grew 5 percent over the prior fiscal year. Source: Google Analytics Audience Overview, All Sessions, michiganradio.org, 7/1/15-6/20/16).

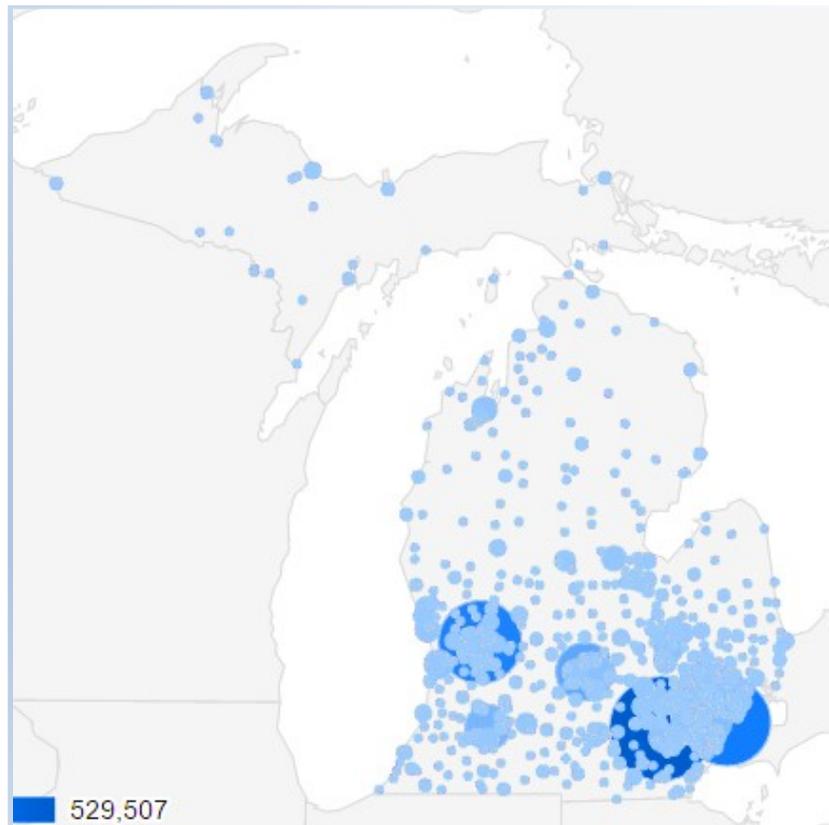
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Management’s Discussion and Analysis (Unaudited)--Continued

A trend that has developed in recent years and is consistent throughout the industry, is that while many listeners are connecting to our stream in a given month, they are connecting less frequently and for shorter periods. The online streaming audience is experiencing this transition due to the broad adoption of smart phones and other digital devices that access Michigan Radio’s program service across the continental U.S. and worldwide. In the past, when accessing the audio stream through desktop devices was more prevalent, listening sessions were longer.

The top five Michigan communities using the Michigan Radio website are Ann Arbor, Detroit, Grand Rapids, Lansing/East Lansing and Kalamazoo; however, citizens of the state from as far away as Keweenaw in the Upper Peninsula accessed the site. Our award-winning special project series *State of Opportunity*’s micro site also recorded consistent traffic and usage during 2016. Over 214,000 people visited the *State of Opportunity* project website, generating 250,000 total sessions.

Digital Density Usage mapping of michiganradio.org



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Management's Discussion and Analysis (Unaudited)--Continued



During 2016, Michigan Radio's social media channels also experienced consistent growth. At June 30, 2016, "likes" on the Michigan Radio Facebook page totaled 39,255 while its daily reach was 41,528, representing increases of 20 percent and 32 percent, respectively.



At June 30, 2016, Michigan Radio's Twitter (@michiganradio) channel followers totaled 35,000, an increase of 16 percent, and averaged 780,750 monthly impressions (number of people who saw the tweets). Other engagement data reveals a monthly average of 3,666 link clicks to the Michigan Radio website, 900 retweets and 757 favorited items during 2016.

Michigan Radio's custom designed iPhone app has continued to attract users and downloads from across the state and beyond. In 2016, the most frequently accessed feature was streaming audio of the station's live news and information broadcast service. Additional features include the station program guide, podcast information, social media links and more. Downloads of the Michigan Radio app have grown impressively since its inception as total app activity (downloads and updates) was 134,545 for Apple and iPhone users in 2016. This is nearly twice the activity from 2015 due to a large growth in app updates. Over its five year history, downloads and updates of the Michigan Radio Apple app were 539,682, with a total of 211,273 downloads. *(Source: JacApps analytics, Jacobs Media in Southfield, MI, September 2016)*

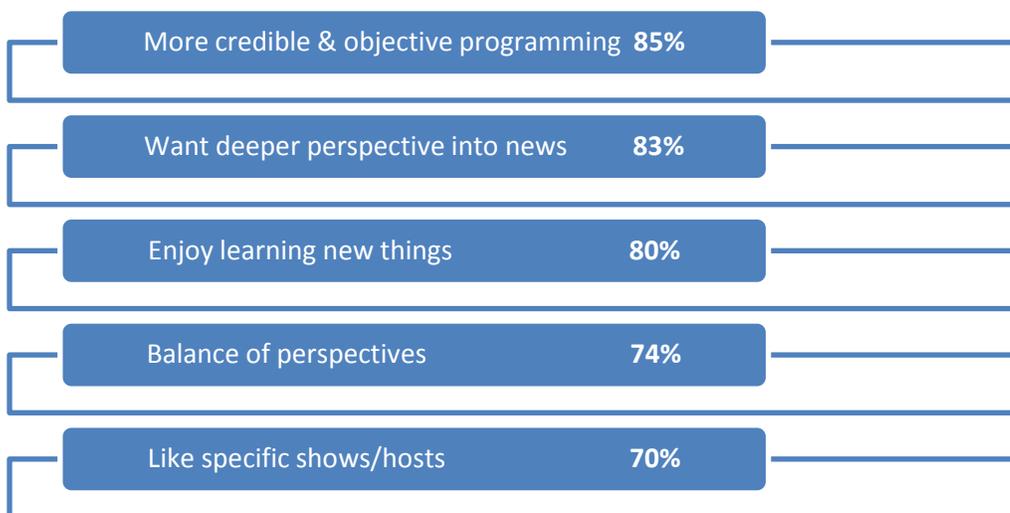
As we assess the growing impact of the digital space for content consumption, we are informed by results from the 8th annual Public Radio Technology Survey ("PRTS8"), commissioned in part by Michigan Radio, from Jacobs Media. According to PRTS8 issued in September 2016, 17 percent of respondents said they were listening to public radio more in the past year, while only 7 percent reported listening less. We also continue to see a trend in the adoption of non-radio devices among our audience as 82 percent of PRTS8 respondents own a smartphone, while 68 percent carry a tablet, an increase of 4 percent and 3 percent, respectively.

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Management’s Discussion and Analysis (Unaudited)--Continued

The PRTS8 survey also tracked user feedback specific to our station, where we continue to see growth in digital platform preference. During 2016, 26 percent of listeners surveyed access Michigan Radio via its stream on a digital platform, versus 71 percent via its traditional, over-the-air broadcast signal. This is a growth of 1 percent in digital listening preference compared to the prior year. In addition, the PRTS8 survey helped identify unique appeal factors with the station’s audience, as shown in the following graphic.

Top 5 Reasons cited by Michigan Radio listeners as to why they listen:



Source: 8th annual Public Radio Technology Survey (“PRTS8”), Jacobs Media

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Management's Discussion and Analysis (Unaudited)--Continued

Michigan Radio continues to attract listeners in southern Michigan with important and intelligent public radio programs, including special coverage of current issues in the news, both on-air and online. During the past year, the station's news and content group increased coverage of the state's most pressing issues, which resulted in unprecedented impact. In an investigative series of reports and a special, hour-long documentary, Michigan Radio's Lindsey Smith worked with a water safety researcher to uncover safety problems and regulatory failures with Flint's drinking water system. The December 2015 documentary, "Not Safe To Drink," was followed by a wave of national media interest in the Flint water story. In the weeks following its broadcast, there were a series of developments in Flint, including the resignations of the Region 5 Director of the EPA, the director, water resource manager and spokesperson of the Michigan Department of Environmental Quality, and the utilities manager and spokesperson for the City of Flint. Additionally, the Michigan attorney general is currently conducting a criminal investigation of the issue.



Michigan Radio has received a considerable amount of direct feedback about its coverage of the Flint water crisis. "The research and coverage that was given to the story even as it was unfolding gave me hope for media, even in this new age," wrote one listener. "Your reporting over the last several months helped expose a real crisis and made a big difference in the lives of people in my community," wrote the state Senator who represents Flint. And perhaps most gratifying, many listeners talked about how it was riveting storytelling, and they couldn't wait to hear what came next. "It was gripping and fascinating and extremely well researched and produced," wrote one listener.

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Management’s Discussion and Analysis (Unaudited)--Continued

Michigan Radio’s coverage of the Flint water crisis has earned numerous journalism awards for the station, including a 2016 National Edward R. Murrow award from Radio Television Digital News Association for Best Documentary and Best Continuing Coverage, as well as awards from the Associated Press, Michigan Association of Broadcasters and Public Radio News Directors Inc.. Michigan Radio has also been advised that the documentary on the Flint Water Crisis, “Not Safe To Drink” has earned an Alfred I. duPont-Columbia University Award, honoring the best in broadcast, documentary and online reporting, to be officially awarded in December 2016. This is a first ever duPont journalism award to Michigan Radio.

In 2016, *Stateside* marked its fifth anniversary of “Smart.Local.Talk.” on Michigan Radio. This one-hour live, local program airing at 3 p.m. and repeated at 10 p.m., covers a wide range of Michigan news and policy issues, as well as culture and lifestyle stories. *Stateside* is hosted by veteran radio and TV broadcaster Cynthia Canty, Monday through Thursday. Award-winning investigative reporter Lester Graham hosts the program on Friday. Each show features a mix of interviews, roundtables and feature reports about the issues that matter in Michigan, including politics, education, policy, health, arts and the environment. *Stateside* also partners with the BBC World Service to explore linkages between global news and events and Michigan. Through a partnership with Interlochen Public Radio, *Stateside* also airs in the Grand Traverse Region. *Stateside* is one of Michigan Radio’s top weekday shows, with a weekly cumulative audience of over 130,000. (Source: Nielsen Audio, Spring 2016) Since its 2015 success in Grand Rapids of debuting the program “on the road,” *Stateside* has traveled to Detroit and Traverse City to connect in person with our audiences around the state.



Stateside Hosts Cynthia Canty and Lester Graham

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Management’s Discussion and Analysis (Unaudited)--Continued



It has been five years since Michigan Radio began its *State of Opportunity* project, which is supported by the W.K. Kellogg Foundation. Three dedicated reporters are creating dialogue and sharing information about childhood poverty through weekly feature reports, an online portal, quarterly documentaries and special investigative shows, daily blogging, and regular community outreach events. In a recent evaluation study about the project, it was found that 70 percent of people who listened to *State of Opportunity* reports took some action as a result of listening, such as discussing the issues with family or friends, contributing money to a charity or organization, or attending a community meeting or group. (Source: Jacobs Media, *State of Opportunity Evaluation*, 2015)

The Detroit Journalism Cooperative (“DJC”) is an ongoing journalism project looking at Detroit’s attempts at recovery and rebirth after being the largest municipality in the country to declare bankruptcy. Michigan Radio is a key member of the project partnership, which includes *Bridge*



Magazine, Detroit Public Television, WDET and New Michigan Media. Next year will mark the 50th anniversary of the 1967 riots in Detroit. The DJC is spending this year and next looking at the challenges that led to the uprising as outlined by the Kerner Commission, and reporting on the progress, or lack thereof, that has been made in Detroit since then. In February 2016, the DJC launched “The Intersection,” a project website for both the presentation and archive of the work we are doing on this project (detroitjournalism.com). The site includes all the radio, video and print stories done for the project by chapter. Future reports will look at education, housing, employment and the city’s economy. Grant funding for the project is provided by the Corporation for Public Broadcasting, John S. and James. L. Knight Foundation, the Ford Foundation and Renaissance Journalism.

The journalism work of Michigan Radio continues to be honored with numerous awards. Led by News Director Vincent Duffy and Program Director Zoe Clark, 12 members of Michigan Radio’s news staff received recognition of their work through the awards earned in 2016. During 2016, Michigan Radio was the recipient of 36 journalism awards from various national, regional and statewide review organizations. Among these are four prestigious, regional Edward R. Murrow awards and a Wade H. McCree Award for the Advancement of Justice from the State Bar of Michigan. Additionally, in June 2016, Michigan Radio was recognized with a national Edward R. Murrow Award. The award, in the Large Market Radio – News Documentary category, was received for the December 2015 documentary reported by Lindsey Smith, “Not Safe to Drink.” This is the fifth national Murrow award for the station, which was last won in 2011 for *The Environment Report* documentary “Coal: Dirty Past, Hazy Future.” Michigan Radio has also won more than ten regional Murrow awards over the past five years.

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Management's Discussion and Analysis (Unaudited)--Continued



Among the most notable awards in 2016, was the “Station of the Year” award for Public Radio in Michigan in the large station category from the Michigan Association of Broadcasters. In addition to “Station of the Year,” Michigan Radio also received seven, first place “Best in Category” awards in recognition of its hard news and feature reporting, news series and newscast, in addition to other categories. Michigan Radio's innovative journalism project “MI Curious” was honored for “Best Special Interest & Cultural Affairs

Program,” and the station was recognized in the “New Media” category for its website and use of social media. A complete list of these awards and topics can be found at michiganradio.org/michigan-radio-awards.

Grant awards from foundations and federal and state programs provide support for new station initiatives. Over the course of 2016, Michigan Radio managed ten grant-funded projects (three federal, seven non-federal) totaling \$2.5 million. This figure includes the time extension and increase in funding for *State of Opportunity*. The project, backed by the W.K. Kellogg Foundation, represents the largest grant award in the station’s history and is now five years in length and totals \$1.7 million. Also included in the figure is one Community Service Grant totaling \$424,000 and a grant to support the DJC totaling \$158,000, both from the Corporation for Public Broadcasting.



Michigan Radio receives the National Edward R. Murrow Award from the Radio Television Digital News Association (RTDNA). Sarah Hulett- Assistant News Director, Vincent Duffy - News Director, Lindsey Smith- Reporter (L-R).



Michigan Radio receives the "Station of the Year" award from the Michigan Association of Broadcasters for the tenth time in eleven years. Zoe Clark - Program Director, Stephen Schram - Executive Director/General Manager, Vincent Duffy - News Director (L-R).

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Management's Discussion and Analysis (Unaudited)--Continued

This year, Michigan Radio once again provided its listeners opportunities to engage with its public radio personalities, notable newsmakers and subject matter experts across the state.



Michigan Radio's popular Issues & Ale live discussion series continued with eight events held in 2016. These events provide an informal setting for the public to engage in conversations about important issues facing Michigan. Over 750 people attended these discussions in communities including Flint, Jackson, Kalamazoo, Ypsilanti, Ann Arbor, Milford and Lansing. Topics ranged from the Flint water crisis to college affordability; and Michigan's primary election to the state's crumbling infrastructure. These discussions also help reinforce station programming initiatives, including our *State of Opportunity* project, and *Beyond the Battlefield* series.

When it comes to entertainment events for the Michigan Radio audience, storytelling has built a large following thanks to public radio programs that extend their impact with local events. Michigan Radio continued hosting monthly storytelling events at the Circus Bar in Ann Arbor in conjunction with *The Moth*, a weekly storytelling program created by an acclaimed nonprofit organization dedicated to the art of storytelling. In June 2016, the station also hosted the *Moth Mainstage* show at the Wharton Center in East Lansing, which featured storytellers from across Michigan and the nation.

In May 2016, NPR's beloved Diane Rehm visited the University's Rackham Auditorium to speak to a sold out audience about her new book, "On My Own." Diane was interviewed onstage by Michigan Radio's *Stateside* host, Cynthia Canty. Diane Rehm has announced her retirement effective December 2016, after a long-running success hosting *The Diane Rehm Show* on NPR for over 30 years.



NPR's Diane Rehm speaks to Michigan Radio donors at a Rackham Hall reception in May 2016

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Management’s Discussion and Analysis (Unaudited)--Continued

Michigan Radio’s listenership continues to be strong, with the coverage from its three FM radio stations reaching 80 percent of Michigan’s population and listenership online through audio streaming exceeding over 87,000 cume listeners monthly. Michigan Radio, with its award winning news and information service, is proud to maintain the distinction as the most listened to public radio station in the state, and the most listened to public radio news station in the state’s two largest markets, metro Detroit and Grand Rapids, as well as every measured market where our signals are heard. *(Source: Adults 12+, Nielsen Audio, Spring 2016, Total Survey Area, Mon. – Sun., RRC)*

Financial Highlights

Michigan Radio’s financial position remains strong, with assets of \$10.1 million and liabilities of \$2.3 million at June 30, 2016, compared to assets of \$9.9 million and liabilities of \$2.2 million at June 30, 2015. Net position, which represents the residual interest in Michigan Radio’s assets after liabilities are deducted, totaled \$7.8 million and \$7.7 million at June 30, 2016 and 2015, respectively.

Changes in net position represent Michigan Radio’s results of operations and are summarized for the years ended June 30, 2016 and 2015 as follows:

	2016	2015
	(in thousands)	
Operating revenues	\$ 3,170	\$ 2,758
Operating expenses	8,109	7,515
Operating loss	(4,939)	(4,757)
Private gifts for operating purposes	4,704	4,622
Other revenues, net	400	442
Increase in net position	\$ 165	\$ 307

Using the Financial Statements

Michigan Radio’s financial report includes three financial statements: the Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position; and the Statement of Cash Flows. These financial statements are prepared in accordance with Governmental Accounting Standards Board (“GASB”) principles.

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Management’s Discussion and Analysis (Unaudited)--Continued

Statement of Net Position

The statement of net position presents the financial position of Michigan Radio at the end of the fiscal year and includes all assets and liabilities of Michigan Radio. The difference between total assets and total liabilities – net position – is one indicator of the current financial condition of Michigan Radio, while the change in net position is an indication of whether the overall financial condition has improved or worsened during the year. A comparison of Michigan Radio’s assets, liabilities and net position at June 30, 2016 and 2015 is summarized as follows:

	2016	2015
	(in thousands)	
Current assets	\$ 6,183	\$ 5,956
Noncurrent assets	3,898	3,918
Total assets	10,081	9,874
Current liabilities:		
Accrued compensation	308	316
Unearned revenue	95	120
Other current liabilities	96	102
Total current liabilities	499	538
Noncurrent liabilities:		
Obligations for postemployment benefits	1,754	1,673
Total liabilities	2,253	2,211
Net position	\$ 7,828	\$ 7,663

Current assets consist primarily of cash and cash equivalents, which totaled \$5.8 million at June 30, 2016 and \$5.6 million at June 30, 2015. Noncurrent assets consist of endowment investments, which totaled \$2.6 million at June 30, 2016 and \$2.7 million at June 30, 2015, and capital assets, net of accumulated depreciation and amortization, which totaled \$1.1 million at June 30, 2016 and \$1.2 million at June 30, 2015. Current liabilities consist primarily of accrued compensation and unearned revenue, which represents amounts received in advance of providing services. Noncurrent liabilities contain post employment benefits obligations, where there has been an increase driven primarily by recent changes in demographic assumptions associated with the adoption of new mortality tables as well as a decrease in the discount rate as determined by the University. Further increases in the liability are also being driven by changes in healthcare trend and long-term disability incidence, recent plan changes (increased coverage levels and shorter waiting period for long-term disability participants), as well as changes in census due to a growing population.

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Management’s Discussion and Analysis (Unaudited)--Continued

Net Position

Net position represents the residual interest in Michigan Radio’s assets after liabilities are deducted. The composition of Michigan Radio’s net position at June 30, 2016 and 2015 is summarized as follows:

	2016	2015
	(in thousands)	
Net investment in capital assets	\$ 1,063	\$ 1,164
Restricted:		
Nonexpendable	97	44
Expendable		2
Unrestricted	6,668	6,453
	\$ 7,828	\$ 7,663

Net investment in capital assets represents Michigan Radio’s capital assets net of accumulated depreciation and amortization.

Restricted nonexpendable net position represents the historical value (corpus) of gifts to Michigan Radio’s permanent endowment funds. Restricted expendable net position is subject to externally imposed stipulations governing its use. This category of net position includes net appreciation of permanent endowments and funds granted for support of a specific operational project.

Although unrestricted net position is not subject to externally imposed stipulations, Michigan Radio’s unrestricted net position has been designated by management for various programs and initiatives, as well as capital projects.

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Management's Discussion and Analysis (Unaudited)--Continued

Statement of Revenues, Expenses and Changes in Net Position

The statement of revenues, expenses and changes in net position presents Michigan Radio's results of operations. In accordance with GASB reporting principles, revenues and expenses are classified as either operating or nonoperating. A comparison of Michigan Radio's revenues, expenses and changes in net position for the three years ended June 30, 2016 is summarized as follows:

	2016	2015	2014
	(in thousands)		
Operating revenues	\$ 3,170	\$ 2,758	\$ 2,779
Operating expenses	8,109	7,515	7,122
Operating loss	(4,939)	(4,757)	(4,343)
Nonoperating revenues (expenses):			
Private gifts for operating activities	4,704	4,622	4,136
Indirect administrative support	352	321	305
Net investment (loss) income	(4)	121	345
Nonoperating revenues, net	5,052	5,064	4,786
Other revenues:			
Endowment gifts and grants	52		5
Increase in net position	165	307	448
Net position, beginning of year	7,663	7,356	6,908
Net position, end of year	\$ 7,828	\$ 7,663	\$ 7,356

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Management’s Discussion and Analysis (Unaudited)--Continued

A comparative summary of Michigan Radio’s operating revenues for the three years ended June 30, 2016 is as follows:

	2016	2015	2014
	(in thousands)		
Underwriting	\$ 1,896	\$ 1,459	\$ 1,425
Corporation for Public Broadcasting grants	424	463	465
Federal and nongovernmental sponsored programs	434	432	404
Trade	188	139	173
Other	228	265	312
	\$ 3,170	\$ 2,758	\$ 2,779

Total operating revenues increased 15 percent, or \$412,000, to \$3.2 million in 2016 due primarily to an increase in underwriting revenues that set a record for that department. In 2016, the underwriting/corporate support team had their best year to date, bringing in revenues of \$1.9 million, an increase of 30 percent over 2015. During 2016, there was a decrease in Corporation for Public Broadcasting (“CPB”) funding of 8 percent, or \$39,000, and a decrease in premium sales of 28 percent, or \$28,000, due to fewer offerings and decreased demand by donors as compared to 2015. These decreases were largely offset by trade revenues which increased \$49,000, or 35 percent during 2016, partially in support of sponsored concerts or events, where the station also earned shared-gate revenue. Other operating revenue consists of tower and studio rental fees, premium sales, special events revenue and digital media sales.

Michigan Radio’s most significant revenue stream continues to be private gifts for operating purposes, which totaled \$4.7 million in 2016, an increase of 2 percent, or \$82,000, from 2015. This is a noteworthy accomplishment when placed in the context of the economic climate of Michigan Radio’s listening area and the overall trend of declining membership nationwide. During 2016, Michigan Radio received a new major donor gift in support of the new compensated student internship program, to be received over a five year period.

During 2016, Michigan Radio experienced a net investment loss of \$4,000, as compared to net investment income of \$121,000 in 2015.

The University has historically provided support to Michigan Radio in the form of general appropriations and indirect administrative support. In response to decreasing support for higher education from the state of Michigan, the University eliminated general fund appropriations in 2014. Indirect administrative support represents an allocation of costs from certain central University units that provide services to Michigan Radio and is reflected as both nonoperating revenue and indirect operating expense.

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Management's Discussion and Analysis (Unaudited)--Continued

A comparative summary of Michigan Radio's operating expenses for the three years ended June 30, 2016 is as follows:

	2016	2015	2014
	(in thousands)		
Direct:			
Programming and production	\$ 4,290	\$ 4,029	\$ 3,873
Engineering	545	495	478
Development	2,005	1,824	1,659
Management and general	917	847	807
	7,757	7,195	6,817
Indirect:			
Programming and production	194	179	173
Engineering	25	22	22
Development	91	81	74
Management and general	42	38	36
	352	320	305
Total operating expenses	\$ 8,109	\$ 7,515	\$ 7,122

Total operating expenses increased 8 percent, or \$594,000, to \$8.1 million in 2016. In 2016, direct expenses increased 8 percent, or \$562,000, due primarily to an increase of \$258,000 in salaries and benefits driven by annual increases as well as new positions in underwriting and social media development. Underwriting commissions increased \$44,000 during 2016, driven by an increase in corporate support revenue. In January 2016, Michigan Radio initiated a compensated student internship program in the programming/news and development departments resulting in additional temporary staff as compared to 2015. Other notable direct expense increases during 2016 include \$74,000 in program fees, \$42,000 to upgrade WVGR's transmitter and \$90,000 associated with a change in our direct mail collaboration service. Indirect administrative support fluctuates each year and is determined based upon a percentage of overall University expenses. This allocation is reflected as both indirect operating expense and nonoperating revenue and, therefore, has no impact on the change in net position.

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Management's Discussion and Analysis (Unaudited)--Continued

Statement of Cash Flows

The statement of cash flows provides additional information about Michigan Radio's financial results by reporting the major sources and uses of cash. A comparative summary of the statement of cash flows for the years ended June 30, 2016 and 2015 is as follows:

	2016	2015
	(in thousands)	
Cash received from operations	\$ 2,956	\$ 2,725
Cash expended for operations	(7,399)	(6,983)
Net cash used in operating activities	(4,443)	(4,258)
Net cash provided by investing activities	62	120
Net cash used in capital and related financing activities		(21)
Net cash provided by noncapital financing activities	4,614	4,621
Net increase in cash and cash equivalents	233	462
Cash and cash equivalents, beginning of year	5,592	5,130
Cash and cash equivalents, end of year	\$ 5,825	\$ 5,592

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Management's Discussion and Analysis (Unaudited)--Continued

Economic Factors That Will Affect the Future

To meet the challenges of the future, Michigan Radio must take into account many influences outside its control. The health of the national, state and local economy, for example, can have a significant impact on funding available for public radio from a broad range of sources including the CPB, corporate and federal sponsors and private giving.

The Community Service Grant ("CSG") from the CPB is a significant source of funding for Michigan Radio. Federal funding enables local public radio stations to maintain their roles as local service providers of vital information and public service. Advanced funding for public broadcasting protects local station autonomy and independence in programming decisions and affords them with a key measure of certainty in their business planning. Our outlook for the 2017 CSG allocation, which is based on 2015 financial reporting, indicates that a mid-single-digit increase is likely.

The strength of Michigan Radio's programming is supported primarily by the success of membership fundraising campaigns and corporate underwriting sponsorship. The continued growth in membership acquisition, particularly with sustainers, and the development of audience listenership are important foundations to build on as Michigan Radio looks to maintain and grow the revenue needed to support its operating and capital programs. Since fall 2015, the station has experienced significant growth in its Detroit market Nielsen audience PPM ratings, which were likely driven by the station's award-winning coverage of the Flint Water Crisis and the U.S. presidential primary and general election coverage cycle. With a growing audience, the opportunity exists to convert listeners to donors and businesses to corporate support sponsors.

In keeping with our strategic plan, Michigan Radio has been successful in its efforts to diversify revenue streams and manage costs to meet the challenges of the current economic environment. One such example is the active development of the non-traditional revenue stream derived from the car donation program, which has grown from relative insignificance, as recently as 2012, to approximately \$286,000 in 2016. In addition, Michigan Radio is actively partnering with other units of the University to capitalize on existing development efforts and develop relationships with current University donors.

While it is not possible to predict the ultimate results, management believes that Michigan Radio's financial condition will remain strong.

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Statement of Net Position

	June 30,	
	2016	2015
Assets		
Current Assets:		
Cash and cash equivalents on deposit with the University	\$ 5,824,780	\$ 5,591,749
Accounts receivable, net	181,968	180,265
Pledges receivable, net	52,512	56,208
Prepaid expenses	69,666	84,116
Premium inventory	54,302	43,671
Total Current Assets	6,183,228	5,956,009
Noncurrent Assets:		
Endowment investments on deposit with the University	2,645,323	2,711,640
Pledges receivable, net	159,852	14,278
Other	29,535	28,387
Capital assets, net	1,063,319	1,163,743
Total Noncurrent Assets	3,898,029	3,918,048
Total Assets	\$ 10,081,257	\$ 9,874,057
Liabilities and Net Position		
Current Liabilities:		
Accounts payable	\$ 34,681	\$ 47,967
Accrued compensation	307,686	316,052
Unearned revenue	95,533	119,855
Obligations for postemployment benefits	61,000	54,000
Total Current Liabilities	498,900	537,874
Noncurrent Liabilities:		
Obligations for postemployment benefits	1,754,000	1,673,000
Total Liabilities	2,252,900	2,210,874
Net Position:		
Net investment in capital assets	1,063,319	1,163,743
Restricted:		
Nonexpendable	96,695	44,195
Expendable	67	2,103
Unrestricted	6,668,276	6,453,142
Total Net Position	7,828,357	7,663,183
Total Liabilities and Net Position	\$ 10,081,257	\$ 9,874,057

The accompanying notes are an integral part of the financial statements.

WUOM/WVGR/WFUM
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**Statement of Revenues, Expenses
and Changes in Net Position**

	Year Ended June 30,	
	2016	2015
Operating Revenues		
Underwriting	\$ 1,895,576	\$ 1,459,586
Corporation for Public Broadcasting grants	423,621	462,817
Nongovernmental sponsored programs	391,219	402,908
Federal grants and contracts	43,442	29,499
Trade	187,809	138,821
Rental income	131,108	134,135
Premium sales	70,675	98,445
Other	26,484	32,279
Total Operating Revenues	3,169,934	2,758,490
Operating Expenses		
Program Services:		
Programming and production	4,484,395	4,208,016
Engineering	569,803	517,516
Total Program Services	5,054,198	4,725,532
Supporting Services:		
Development	2,096,424	1,905,180
Management and general	958,121	884,586
Total Supporting Services	3,054,545	2,789,766
Total Operating Expenses	8,108,743	7,515,298
Operating loss	(4,938,809)	(4,756,808)
Nonoperating Revenues (Expenses)		
Private gifts for other than capital and endowment purposes	4,703,674	4,621,993
Indirect administrative support from the University	351,528	320,454
Net investment (loss) income	(3,719)	121,122
Total Nonoperating Revenues, Net	5,051,483	5,063,569
Increase in net position before other revenues	112,674	306,761
Other Revenues		
Private gifts for permanent endowment purposes	52,500	60
Total Other Revenues	52,500	60
Increase in net position	165,174	306,821
Net Position, Beginning of Year	7,663,183	7,356,362
Net Position, End of Year	\$ 7,828,357	\$ 7,663,183

The accompanying notes are an integral part of the financial statements.

WUOM/WVGR/WFUM
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Statement of Cash Flows

	Year Ended June 30,	
	2016	2015
Cash Flows from Operating Activities		
Underwriting	\$ 1,851,768	\$ 1,503,091
Corporation for Public Broadcasting grants	423,621	462,817
Nongovernmental sponsored programs	412,726	429,881
Federal grants and contracts	39,720	29,362
Rental income	131,108	156,635
Premium sales	70,675	98,445
Other receipts	26,484	44,594
Payments for salaries and benefits	(4,242,509)	(3,981,295)
Payments for program rights	(1,461,460)	(1,448,769)
Payments for operating and administrative expenses	(1,694,848)	(1,552,584)
Net Cash Used in Operating Activities	(4,442,715)	(4,257,823)
Cash Flows from Investing Activities		
(Purchases) sales of investments	(52,500)	13,372
Net investment income	113,950	106,574
Net Cash Provided by Investing Activities	61,450	119,946
Cash Flows from Capital Financing Activities		
Purchase of capital assets		(21,740)
Net Cash Used in Capital Financing Activities	-	(21,740)
Cash Flows from Noncapital Financing Activities		
Private gifts	4,614,296	4,621,377
Net Cash Provided by Noncapital Financing Activities	4,614,296	4,621,377
Net increase in cash and cash equivalents	233,031	461,760
Cash and Cash Equivalents, Beginning of Year	5,591,749	5,129,989
Cash and Cash Equivalents, End of Year	\$ 5,824,780	\$ 5,591,749

The accompanying notes are an integral part of the financial statements.

WUOM/WVGR/WFUM
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Statement of Cash Flows--Continued

	Year Ended June 30,	
	2016	2015
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (4,938,809)	\$ (4,756,808)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Indirect administrative support	351,528	320,454
Depreciation and amortization expense	100,424	102,461
Changes in assets and liabilities:		
Accounts receivable, net	(1,703)	27,711
Premium inventory	(10,631)	(1,333)
Prepaid expenses	14,450	(44,758)
Accounts payable	(13,286)	5,096
Accrued compensation	(8,366)	(5,092)
Unearned revenue	(24,322)	77,446
Obligations for postemployment benefits	88,000	17,000
Net cash used in operating activities	\$ (4,442,715)	\$ (4,257,823)

The accompanying notes are an integral part of the financial statements.

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Notes to Financial Statements

June 30, 2016 and 2015

Note 1--Organization and Summary of Significant Accounting Policies

Organization and Basis of Presentation: WUOM/WVGR/WFUM (“Michigan Radio”) is a public telecommunications entity licensed by the Federal Communications Commission and operates under the control of the Regents of the University of Michigan (the “University”) through its Michigan Public Media unit. Collectively known as Michigan Radio, this network of three public radio stations includes WUOM - Ann Arbor (91.7 FM, 93 KW), WVGR - Grand Rapids (104.1 FM, 96 KW) and WFUM - Flint (91.1 FM, 17.5 KW). Michigan Radio broadcasts national and local news and information programming 24 hours a day to most of the southern two-thirds of the state of Michigan’s lower peninsula, from its studios in Ann Arbor and news bureaus in Dearborn/Detroit, Flint and Grand Rapids.

Michigan Radio operates under control of the University and accordingly, utilizes assets whose title is vested in the University. As part of the University, Michigan Radio is exempt from income taxes under Internal Revenue Code Sections 501(c)(3) and 115. The assets, liabilities, revenues, expenses and changes in net position of Michigan Radio are included in the consolidated financial statements of the University.

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (“GASB”). Michigan Radio reports as a special purpose government entity engaged primarily in business type activities, as defined by GASB, on the accrual basis. Business type activities are those that are financed in whole or in part by fees charged to external parties for goods or services.

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Notes to Financial Statements--Continued

Note 1--Organization and Summary of Significant Accounting Policies--Continued

Net position is categorized as:

- Net investment in capital assets: Capital assets, net of accumulated depreciation and amortization.
- Restricted:
 - Nonexpendable – Net position subject to externally imposed stipulations that it be maintained permanently. Such net position includes the corpus portion (historical value) of gifts to Michigan Radio’s permanent endowment funds and certain investment earnings stipulated by the donor to be reinvested permanently.
 - Expendable – Net position subject to externally imposed stipulations that can be fulfilled by actions of Michigan Radio pursuant to those stipulations or that expire by the passage of time. Such net position includes net appreciation of Michigan Radio’s permanent endowment funds that have not been stipulated by the donor to be reinvested permanently.
- Unrestricted: Net position not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management, the Board of Regents or may otherwise be limited by contractual agreements with outside parties.

Adoption of New Accounting Standard: During 2016, the University adopted GASB Statement No. 72, *Fair Value Measurement and Application* (“GASB 72”). The adoption of this statement did not have a material impact on Michigan Radio’s financial statements.

Summary of Significant Accounting Policies: For purposes of the statement of cash flows, Michigan Radio considers all highly liquid investments purchased with a maturity of three months or less, to be cash equivalents. Cash equivalents represent investments in the University Investment Pool (“UIP”), a short-term commingled pool managed by the University that can be readily liquidated to pay contractual liabilities.

Accounts receivable are recorded net of an allowance for uncollectible accounts receivable. The allowance is maintained at a level to absorb losses inherent in accounts receivables. Management determines the adequacy of the allowance by estimating uncollectability based on recent loss experience. Actual losses may vary from those projected amounts.

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Notes to Financial Statements--Continued

Note 1--Organization and Summary of Significant Accounting Policies--Continued

Michigan Radio receives pledges and bequests of financial support from corporations, foundations and individuals. Revenue is recognized when a pledge representing an unconditional promise to pay is received and all eligibility requirements, including time requirements, have been met. In the absence of such a promise, revenue is recognized when the gift is received. An allowance for uncollectible pledges receivable is provided based on management's judgment of potential uncollectible amounts and includes such factors as prior collection history, type of gift and nature of fundraising.

Unconditional promises to give that are expected to be collected in future years are recorded at the present value of the estimated future cash flows. The discounts on these amounts are computed using risk-free interest rates applicable to the years in which the promises are made, commensurate with expected future payments. An allowance for uncollectible pledges receivable is provided based on management's judgment of potential uncollectible amounts and includes such factors as prior collection history, type of gift and nature of fundraising.

Prepaid expenses consist primarily of costs incurred for programs not yet broadcast and relate to program rights acquired by Michigan Radio that will be broadcast subsequent to June 30, as well as membership/association dues for subsequent months after June 30.

Premium inventory consists of promotional items held for distribution to the general public in exchange for membership contributions. Inventory is stated at the lower of cost or market on a first-in-first-out basis.

Endowment investments primarily represent investments in the University Endowment Fund ("UEF"), a commingled pool which is invested entirely in the Long Term Portfolio, a diversified, equity-oriented investment pool managed by the University. The net asset value ("NAV") of UEF shares is determined at the end of each calendar quarter based on the fair value of the pool. Participants may purchase or redeem UEF shares at NAV at each valuation date, subject to minimum holding and notice requirements.

Other assets represent the cash surrender value of a life insurance policy donated to Michigan Radio.

Capital assets are recorded at cost or, if donated, at fair value at the date of donation. Depreciation of capital assets is provided on a straight-line method over the estimated useful lives of the respective assets, which generally range from three to forty years. Leasehold improvements are amortized over the shorter of their estimated useful lives or the related lease term.

Accrued compensation consists of amounts earned for services performed that will be paid in the future and accumulated staff vacation days that will be taken after June 30.

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Notes to Financial Statements--Continued

Note 1--Organization and Summary of Significant Accounting Policies--Continued

Unearned revenue consists primarily of cash received from grant and underwriting sponsors which has not yet been earned under the terms of the agreement.

Underwriting revenue is received from corporate sponsors, non-profit organizations, university departments and units for on-air credit announcements, web streaming introductions and web tile squares placed on MichiganRadio.org. Michigan Radio recognizes underwriting revenue as credits are aired, deferring any revenue related to unaired credits.

Community service and other grants are received from the Corporation for Public Broadcasting, a private, non-profit corporation that provides funding for public radio and television programming.

Trade revenue results from in-kind barter-type agreements with outside organizations which provide goods and services in exchange for on-air credit announcements. Trade revenue and related expenses approximate the fair value of the transactions.

Rental income primarily results from rent received from leasing access to two of Michigan Radio's towers as well as from studio rental.

Indirect administrative support from the University consists of allocated finance, human resources, development, technology, sponsored programs and other administrative costs. This support is reflected as nonoperating revenue and operating expense as incurred in the accompanying statement of revenues, expenses and changes in net position.

The costs of providing various activities have been summarized on a functional basis in the statement of revenues, expenses and changes in net position. Accordingly, certain costs have been allocated among the program and supporting activities using the objective basis, percentage of expenses.

Michigan Radio's policy for defining operating activities as reported on the statement of revenues, expenses and changes in net position 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 revenues, as defined by GASB, including private gifts, investment income and indirect administrative support from the University.

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 amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

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Notes to Financial Statements--Continued

Note 2--Cash and Investments

The University maintains centralized management for substantially all cash and investments of Michigan Radio. Cash reserves and relatively short duration assets are invested in the UIP, while longer term assets held in the UEF are invested in the University's Long Term Portfolio. The UIP is principally invested in investment-grade money market securities, U.S. government and other fixed income securities and absolute return strategies. The longer investment horizon of the University's Long Term Portfolio allows for an equity-oriented strategy to achieve higher expected returns over time, and permits the use of less liquid alternative investments, providing for equity diversification beyond the stock markets.

The UEF consists of both permanent endowments and funds functioning as endowment. Permanent endowments are those funds received from donors with the stipulation that the principal remain intact and be invested in perpetuity to produce income that is to be expended for the purposes specified by the donors. Funds functioning as endowment consist of amounts (restricted gifts or unrestricted funds) that have been allocated by Michigan Radio for long-term investment purposes, but are not limited by donor stipulations requiring Michigan Radio to preserve principal in perpetuity.

The University's investment policies are governed and authorized by University Bylaws and the Board of Regents. The approved asset allocation policy for the Long Term Portfolio, in which the UEF invests, sets a general target of 80 percent equities and 20 percent fixed income securities, within a permitted range of 65 to 90 percent for equities and 10 to 35 percent for fixed income securities. Since diversification is a fundamental risk management strategy, the Long Term Portfolio is broadly diversified within these general categories. At June 30, 2016 and 2015, the Long Term Portfolio consisted of cash and equivalents (1 percent and 1 percent), fixed income securities (9 percent and 14 percent), U.S. and non-U.S. equities (14 percent and 13 percent), commingled funds (25 percent and 26 percent), and nonmarketable alternative investments (51 percent and 46 percent).

Commingled (pooled) funds held in the Long Term Portfolio include Securities and Exchange Commission regulated mutual funds and externally managed funds, limited partnerships and corporate structures which are generally unrated and unregulated. Commingled funds have liquidity (redemption) provisions, which enable the University to make full or partial withdrawals with notice, subject to restrictions on timing and amount. Commingled funds are primarily invested in non-U.S./global equities and absolute return strategies, but also include exposure to domestic fixed income and equity securities. Certain commingled funds may use derivatives, short positions and leverage as part of their investment strategy; however, these investments are structured to limit the University's risk exposure to the amount of invested capital.

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Notes to Financial Statements--Continued

Note 2--Cash and Investments--Continued

Nonmarketable alternative investments held in the Long Term Portfolio consist of limited partnerships and similar vehicles involving an advance commitment of capital called by the general partner as needed and distributions of capital and return on invested capital as underlying strategies are concluded during the life of the partnership. These limited partnerships include venture capital, private equity, real estate, natural resources and absolute return strategies. There is not an active secondary market for these alternative investments, which are generally unrated and unregulated, and the liquidity of these investments is dependent on actions taken by the general partner.

The Long Term Portfolio holds investments denominated in foreign currencies and forward foreign exchange contracts used to manage the risk related to fluctuations in currency exchange rates between the time of purchase or sale and the actual settlement of foreign securities. Various investment managers acting for the University also use forward foreign exchange contracts in risk-based transactions to carry out their portfolio strategies. Foreign exchange risk is the risk that investments denominated in foreign currencies may lose value due to adverse fluctuations in the value of the U.S. dollar relative to foreign currencies. The Long Term Portfolio's non-U.S. dollar exposure amounted to 8 percent and 5 percent of the portfolio at June 30, 2016 and 2015, respectively.

The University's investment strategy incorporates certain financial instruments that involve, to varying degrees, elements of market risk and credit risk in excess of amounts recorded in the financial statements. Market risk is the potential for changes in the value of financial instruments due to market changes, including interest and foreign exchange rate movements and fluctuations embodied in forwards, futures and commodity or security prices. Market risk is directly impacted by the volatility and liquidity of the markets in which the underlying assets are traded. Credit risk is the possibility that a loss may occur due to the failure of a counterparty to perform according to the terms of the contract. The University's risk of loss in the event of a counterparty default is typically limited to the amounts recognized in the statement of net position and is not represented by the contract or notional amounts of the instruments.

Michigan Radio receives quarterly distributions from the UEF based on the University's endowment spending rule. At June 30, 2016 and 2015, the annual distribution rate was 4.5 percent of the one-quarter lagged seven year moving average fair value of fund shares. To protect endowment principal in the event of a prolonged market downturn, distributions are limited to 5.3 percent of the current fair value of fund shares. Monthly distributions are also made from the UIP to Michigan Radio based on the 90-day U.S. Treasury Bill rate. The University's costs to administer and grow the UEF and UIP are funded by investment returns.

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Notes to Financial Statements--Continued

Note 2--Cash and Investments--Continued

Withdrawals may be made quarterly from the UEF, with thirty days' notice, based upon University policy, generally after a five year investment period. Withdrawals may be made from the UIP on a daily basis.

GASB 72 defines fair value and establishes a framework for measuring fair value that includes a three tiered hierarchy of valuation inputs, placing a priority on those which are observable in the marketplace. Observable inputs reflect market data obtained from sources independent of the reporting entity and unobservable inputs reflect the entity's own assumptions about how market participants would value an asset or liability based on the best information available. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. The three levels of inputs, of which the first two are considered observable and the last unobservable, are as follows:

- Level 1 – Quoted prices for identical assets or liabilities in active markets that can be accessed at the measurement date
- Level 2 – Other significant observable inputs, either direct or indirect, such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable; or market corroborated inputs
- Level 3 – Unobservable inputs

A significant portion of the underlying investments of the University's commingled pools include nonmarketable alternative investments and certain commingled funds described earlier in this note that are priced by managers using NAV. The proprietary valuation techniques and unobservable pricing assumptions used by these managers to estimate fair value may have a significant impact on the resulting fair value determination of these investments. However, Michigan Radio uses Level 2 inputs to measure the fair value of its investments in the University's commingled pools described in Note 1 and within this note, since shares may be purchased or sold subject to holding and notice requirements at the NAVs determined by the University.

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Notes to Financial Statements--Continued

Note 3--Accounts Receivable

The composition of accounts receivable at June 30, 2016 and 2015 is summarized as follows:

	2016	2015
Underwriting	\$ 172,990	\$ 116,664
Other	9,664	63,806
	182,654	180,470
Less allowance for uncollectible accounts receivable	686	205
	<u>\$ 181,968</u>	<u>\$ 180,265</u>

Note 4--Pledges Receivable

The composition of pledges receivable at June 30, 2016 and 2015 is summarized as follows:

	2016	2015
Gift pledges outstanding	\$ 232,662	\$ 90,392
Less allowance for uncollectible pledges and unamortized discount to present value	20,298	19,906
Total pledges receivable, net	212,364	70,486
Less current portion	52,512	56,208
	<u>\$ 159,852</u>	<u>\$ 14,278</u>

Payments on pledges receivable at June 30, 2016 are expected to be received in the following years ended June 30 (in thousands):

2017	\$ 62,662
2018	45,000
2019	45,000
2020	40,000
2021	40,000
	<u>\$ 232,662</u>

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Notes to Financial Statements--Continued

Note 5--Capital Assets

Capital assets activity for the years ended June 30, 2016 and 2015 is summarized as follows:

		2016			
		Beginning Balance	Additions	Retirements	Ending Balance
Land		\$ 290,238			\$ 290,238
Transmitter, tower and equipment		2,028,767			2,028,767
Leasehold improvement		1,665,493			1,665,493
Construction in progress		-			-
		3,984,498	-	\$ -	3,984,498
Less accumulated depreciation and amortization		2,820,755	\$ 100,424		2,921,179
		\$ 1,163,743	\$ (100,424)	\$ -	\$ 1,063,319
		2015			
		Beginning Balance	Additions	Retirements	Ending Balance
Land		\$ 290,238			\$ 290,238
Transmitter, tower and equipment		2,007,027	\$ 21,740		2,028,767
Leasehold improvement		1,595,490	70,003		1,665,493
Construction in progress		70,003	(70,003)		-
		3,962,758	21,740	\$ -	3,984,498
Less accumulated depreciation and amortization		2,718,294	102,461		2,820,755
		\$ 1,244,464	\$ (80,721)	\$ -	\$ 1,163,743

The U.S. Department of Commerce has reversionary interest in equipment purchased in part with two Public Telecommunications Facilities Program grants received from the National Telecommunications and Information Administration. The reversionary interest is pursuant to the terms of federal priority liens which extend ten years after the equipment was placed in service. At June 30, 2016, the only remaining reversionary interest is in the West Michigan Radio Tower, which had an original cost of \$1,298,349, and extends through 2017. There is no provision made in the financial statements for the reversionary interest since Michigan Radio plans to continue to actively use the equipment beyond the lien expirations.

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Notes to Financial Statements--Continued

Note 6--Postemployment Benefits

Michigan Radio participates in the University's postemployment benefits plan which provides retiree health and welfare benefits; primarily medical, prescription drug, dental and life insurance coverage, to eligible retirees and their eligible dependents. Substantially all of Michigan Radio's regular employees may become eligible for these benefits if they reach retirement age while working for Michigan Radio. For employees retiring on or after January 1, 1987, contributions toward health and welfare benefits are shared between Michigan Radio and the retiree and can vary based on date of hire, date of retirement, age and coverage elections.

The University also provides income replacement benefits, retirement savings contributions and health and life insurance benefits to substantially all regular Michigan Radio employees who are enrolled in a University sponsored long-term disability plan and qualify, based on disability status while working for Michigan Radio, to receive basic or expanded long-term disability benefits. Contributions toward the expanded long-term disability plan are shared between Michigan Radio and employees and vary based on years of service, annual base salary and coverage elections. Contributions toward the basic long-term disability plan are paid entirely by Michigan Radio.

These postemployment benefits are provided through single-employer plans administered by the University. The Executive Vice Presidents of the University have the authority to establish and amend benefit provisions of the plans.

The University's annual postemployment benefits expense is actuarially determined in accordance with GASB Statement No. 45. Projections of benefits are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided and announced future changes at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point.

Michigan Radio's annual postemployment benefits expense and liability represents an allocation of Michigan Radio's relative share of the University's expense and liability, based on the method in which the retiree benefits are funded. The funding method is based upon a percentage of salary dollars of active employees that qualify for retiree benefits.

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Notes to Financial Statements--Continued

Note 6--Postemployment Benefits--Continued

Changes in the total reported liability for Michigan Radio's postemployment benefits obligations for the years ended June 30, 2016 and 2015 are summarized as follows:

	2016	2015
Balance, beginning of year	\$ 1,727,000	\$ 1,710,000
Postemployment benefits expense	163,000	86,000
Payments of current premiums and claims	(75,000)	(69,000)
Balance, end of year	1,815,000	1,727,000
Less current portion	61,000	54,000
	<u>\$ 1,754,000</u>	<u>\$ 1,673,000</u>

Michigan Radio has no obligation to make contributions in advance of when insurance premiums or claims are due for payment and currently pays for postemployment benefits on a pay-as-you-go basis. Michigan Radio's obligations for postemployment benefits at June 30, 2016 and 2015 as a percentage of covered payroll of \$3,127,217 and \$2,983,293 was 58 percent and 58 percent, respectively.

The University's postemployment benefits liability was calculated using the projected unit credit method. Significant actuarial methods and assumptions used in the valuation for the years ended June 30, 2016 and 2015 are as follows:

	2016	
	<u>Retiree Health and Welfare</u>	<u>Long-term Disability</u>
Discount Rate	5.58%	7.38%
Immediate/Ultimate Administrative Trend Rate	0.0%/3.0%	0.0%/3.0%
Immediate/Ultimate Medical Trend Rate	5.5%-7.0%/4.5%	5.5%-7.0%/4.5%
Immediate Ultimate Rx Trend Rate	10.5%/4.5%	10.5%/4.5%
Expected Retirement Age (Faculty/Staff/Union)	66/62/61	Not Applicable
Mortality/Termination Table	RP-2014 Generational	2005 SOA Life Waiver (Modified)
	2015	
	<u>Retiree Health and Welfare</u>	<u>Long-term Disability</u>
Discount Rate	6.08%	7.88%
Immediate/Ultimate Administrative Trend Rate	0.0%/3.0%	0.0%/3.0%
Immediate/Ultimate Medical Trend Rate	6.0%-7.0%/4.5%	6.0%-7.0%/4.5%
Immediate Ultimate Rx Trend Rate	6.5%/4.5%	6.5%/4.5%
Expected Retirement Age (Faculty/Staff/Union)	66/62/61	Not Applicable
Mortality/Termination Table	RP-2000 Generational	2005 SOA Life Waiver (Modified)

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Notes to Financial Statements--Continued

Note 7--Retirement Plan

Michigan Radio participates in the University's retirement plan, a defined contribution retirement plan through the Teachers Insurance and Annuity Association - College Retirement Equities Fund ("TIAA-CREF") and Fidelity Management Trust Company ("FMTC") mutual funds. All staff are eligible to participate in the plan based upon age and service requirements. Participants maintain individual contracts with TIAA-CREF, or accounts with FMTC, and are fully vested.

For payroll covered under the plan, eligible employees generally contribute 5 percent of their pay and Michigan Radio generally contributes an amount equal to 10 percent of employees' pay to the plan. Michigan Radio's contribution commences after an employee has completed one year of employment. Participants may elect to contribute additional amounts to the plan within specified limits that are not matched by Michigan Radio contributions. Contributions and covered payroll under the plan (excluding participant's additional contributions) for the three years ended June 30, 2016 are summarized as follows:

	2016	2015	2014
Michigan Radio contributions	\$ 274,438	\$ 266,677	\$ 256,227
Employee contributions	\$ 143,776	\$ 139,420	\$ 133,143
Payroll covered under plan	\$ 3,127,217	\$ 2,983,293	\$ 2,732,595
Total payroll	\$ 3,245,552	\$ 3,019,039	\$ 2,774,146

Note 8--Commitments and Contingencies

Michigan Radio has entered into operating leases for space, which expire at various dates through 2020. Outstanding commitments for these leases are expected to be paid in the following years ended June 30:

2017	\$ 225,819
2018	47,791
2019	12,256
2020	11,046
	\$ 296,912



Report of Independent Auditors on Supplementary Information

To The Regents of the University of Michigan

We have audited the financial statements of WUOM/WVGR/WFUM as of June 30, 2016 and 2015 and for the years then ended and our report thereon appears on pages 1 and 2 of this document. That audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the financial statements. The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

PricewaterhouseCoopers LLP

November 30, 2016

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**Schedule of Functional Expenses
For the Year Ended June 30, 2016**

	Program Services			Supporting Services			Total Operating Expenses
	Programming and Production	Engineering	Total Program Services	Development	Management and General	Total Supporting Services	
Salaries, payroll taxes and employee benefits	\$ 2,148,092	\$ 244,199	\$ 2,392,291	\$ 1,175,187	\$ 754,665	\$ 1,929,852	\$ 4,322,143
Program fees	1,478,647		1,478,647			-	1,478,647
Depreciation and amortization	57,337	7,051	64,388	23,984	12,052	36,036	100,424
Indirect administrative support	194,350	24,730	219,080	90,907	41,541	132,448	351,528
Professional services	260,594	14,591	275,185	241,408	40,450	281,858	557,043
Equipment and space rental	130,516	63,923	194,439	53,209	26,173	79,382	273,821
Advertising	7,474		7,474	196,186	1,035	197,221	204,695
Supplies	8,961	40,890	49,851	103,711	16,213	119,924	169,775
Travel and conferences	75,273	5,522	80,795	34,443	18,249	52,692	133,487
Telecommunications	29,994	45,375	75,369	9,929	17,833	27,762	103,131
Repairs and maintenance	434	22,954	23,388	364	23,112	23,476	46,864
Utilities	10,181	99,336	109,517	4,214	2,118	6,332	115,849
Postage and freight	189	387	576	61,347	95	61,442	62,018
Surveys and ratings	76,010	845	76,855			-	76,855
Merchant service fees			-	101,060		101,060	101,060
Memberships and dues	6,343		6,343	475	3,505	3,980	10,323
Other			-		1,080	1,080	1,080
Total Operating Expenses	\$ 4,484,395	\$ 569,803	\$ 5,054,198	\$ 2,096,424	\$ 958,121	\$ 3,054,545	\$ 8,108,743

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**Schedule of Functional Expenses
For the Year Ended June 30, 2015**

	Program Services			Supporting Services			Total Operating Expenses
	Programming and Production	Engineering	Total Program Services	Development	Management and General	Total Supporting Services	
Salaries, payroll taxes and employee benefits	\$ 2,010,434	\$ 234,500	\$ 2,244,934	\$ 1,028,638	\$ 719,632	\$ 1,748,270	\$ 3,993,204
Program fees	1,404,213		1,404,213			-	1,404,213
Depreciation and amortization	58,500	7,194	65,694	24,470	12,297	36,767	102,461
Indirect administrative support	179,431	22,067	201,498	81,237	37,719	118,956	320,454
Professional services	242,037	3,615	245,652	157,247	37,032	194,279	439,931
Equipment and space rental	125,017	27,502	152,519	51,762	25,545	77,307	229,826
Advertising	3,863		3,863	145,452	180	145,632	149,495
Supplies	6,200	50,102	56,302	160,563	10,623	171,186	227,488
Travel and conferences	60,579	6,075	66,654	47,596	13,902	61,498	128,152
Telecommunications	32,266	49,318	81,584	10,210	4,029	14,239	95,823
Repairs and maintenance	380	18,726	19,106	23	28,545	28,568	47,674
Utilities	15,830	96,363	112,193	6,592	3,312	9,904	122,097
Postage and freight	114	1,339	1,453	85,579	74	85,653	87,106
Surveys and ratings	61,555	715	62,270			-	62,270
Merchant service fees	7		7	97,841		97,841	97,848
Memberships and dues	2,590		2,590	7,970	3,125	11,095	13,685
Other	5,000		5,000		(11,429)	(11,429)	(6,429)
Total Operating Expenses	\$ 4,208,016	\$ 517,516	\$ 4,725,532	\$ 1,905,180	\$ 884,586	\$ 2,789,766	\$ 7,515,298