

**WFUM-TV
(A PUBLIC TELECOMMUNICATIONS ENTITY
OPERATED BY THE UNIVERSITY OF MICHIGAN)**

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008 and 2007
with
REPORT OF INDEPENDENT AUDITORS**

WFUM-TV
(A PUBLIC TELECOMMUNICATIONS ENTITY
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June 30, 2008 and 2007

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Report of Independent Auditors

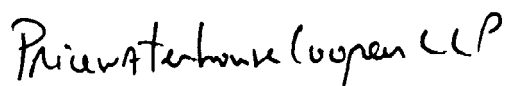
The Regents of the University of Michigan

In our opinion, the accompanying statement of net assets and the related statements of revenues, expenses and changes in net assets and of cash flows present fairly, in all material respects, the financial position of WFUM-TV (“Michigan Television”) at June 30, 2008 and 2007, and the revenues, expenses and 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. These financial statements are the responsibility of Michigan Television’s management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The accompanying financial statements have been prepared assuming that Michigan Television will continue as a going concern. As discussed in Note 1 to the financial statements, Michigan Television has suffered recurring losses from operations and has significant negative working capital that raise substantial doubt about its ability to continue as a going concern. Management’s plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As described in Note 1 to the financial statements, Michigan Television adopted the provisions of Governmental Accounting Standards Board (“GASB”) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* as of July 1, 2007.

The Management’s Discussion and Analysis (“MD&A”) on pages 2 through 13 is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the MD&A. However, we did not audit the information and express no opinion on it.



February 9, 2009

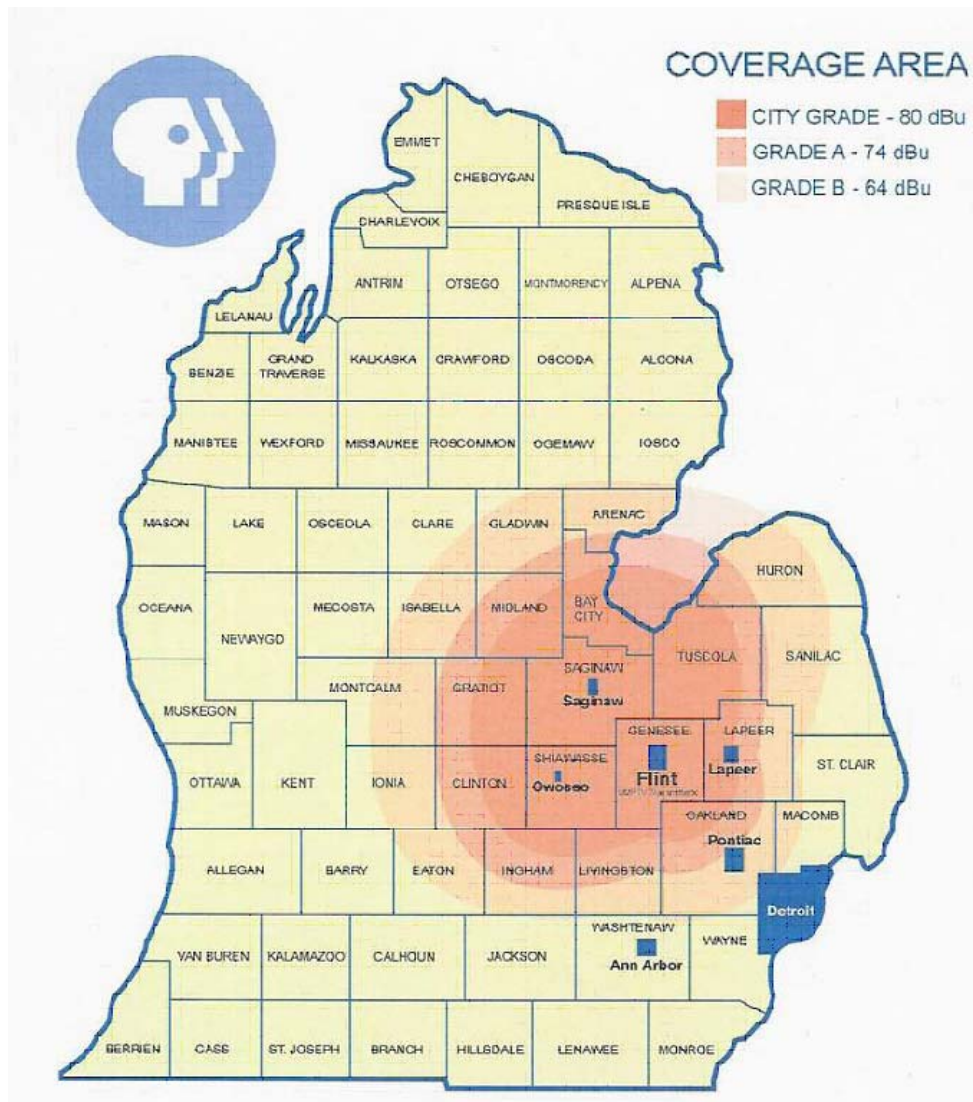
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Management’s Discussion and Analysis (Unaudited)

Introduction

The following discussion and analysis provides an overview of the financial position of WFUM-TV (“Michigan Television”) at June 30, 2008 and 2007 and its activities for the three fiscal years ended June 30, 2008. 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 Television, a public television station operating on channel 28 (digital channel 52), is licensed by the Federal Communications Commission and operates under control of the Regents of the University of Michigan (the “University”) through its Michigan Public Media unit.



Recognized as Michigan Television, WFUM-TV reaches over 3.3 million households in more than 200 cities in southeast and mid-Michigan from its broadcast facilities in Flint, Michigan. As a member of the Public Broadcasting Service (“PBS”) and the Michigan Association of Public Broadcasters, Michigan Television presents high-quality national and local public programs.

Michigan Television’s viewing audience by county is summarized as follows:

- Oakland: 29%
- Wayne: 17%
- Genesee: 14%
- Macomb: 12%
- Washtenaw: 10%
- Other: 18%

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

Over the past three years, Michigan Television has successfully grown its audience viewership by 37 percent in southeast Michigan:

WFUM-TV -- Average Weekly Viewers

2007	2006	2005
218,857	175,926	159,929

Source: Nielsen County Coverage Report: Average Quarter Hour (AQH),
Average Weekly Viewers (Full week, Mon-Sun, 7am-1am)

Michigan Television's programs and activities comprise researching, producing and airing local programs, as well as airing national and international programs aligned with Michigan Television's mission. Recent program accomplishments include developing and airing several short-form programs on Michigan arts and humanities. Known as *Matrix*, this original local series production is funded through a partnership with the Michigan Humanities Council and the Michigan Council for Arts and Cultural Affairs. This year's series included special short-form stories profiling the Michigan Youth Arts Festival in Kalamazoo, Michigan's Pine Mountain Music Festival in the Upper Peninsula and the Grand Rapids Art Museum. These short stories are distributed to PBS public TV stations throughout Michigan. In a similar vein, Michigan Television also produced and premiered a new series, funded by the Michigan Humanities Council, called *Michigan Minutes*. Partnering with state libraries and archives, the station produced a series of interstitials highlighting moments of historical significance from around the state.

In Fall 2007, a special outreach project was crafted to create a local component to the PBS Ken Burns' documentary *The War*. Michigan Television produced *WWII: Through the Lens of Duane Zemper*, a documentary focusing on the experiences of Duane Zemper, a Howell, Michigan resident who served as a photo officer for the Army Air Corps. This documentary was selected as the Michigan Association of Broadcasters' 2007 Best in Category for Mini Documentary and Series and received a 2007 Michigan Emmy for Best Documentary - Historical. The station hosted public events in Ann Arbor and Howell which included screenings of the documentary, interaction with Mr. Zemper, and a gallery style display of his WWII photographs. Over 400 people attended the Howell event, capped by the long delayed presentation of WWII medals to Mr. Zemper by state officials.

Michigan Television also dedicated resources and effort to capture the stories of as many living Michigan WWII veterans as possible. The station invited veterans and their families to the studio to record video memoirs of their experiences during WWII. These memoirs were made available to the public through a comprehensive WWII website at michigantelevision.org and were also submitted to the Library of Congress WWII archive for permanent placement.

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

Michigan Television continues to connect with its community through outreach programs designed to educate and inform. The station provides needed literacy support to Genesee County through its Ready to Learn program. The program presents free literacy workshops and book distributions to underserved families in the community. The station provided over 100 workshops and distributed more than 5,000 books in the past year.

The station also presents film screenings and discussion events for the general public in partnership with the Ann Arbor District Library. The series is designed to encourage discussion around difficult topics like race and social justice. The Station Manager leads these discussion sessions. To frame these discussions, select PBS and locally produced program screenings are incorporated.

Michigan Television enjoyed a very successful award season securing a record seven Michigan Emmys in several program categories. Michigan Emmys are awarded annually by the Michigan Chapter of the National Academy of Television Arts and Sciences to recognize excellence in television production.

Emmy Awards were won for the following Michigan Television programs in fiscal 2008:

Program	Emmy Award Category
Bijou Orchestra	Arts/Entertainment
Where do the Children Play?	Health/Science – Program Special Documentary – Topical Advance Media – Writer/Producer Advance Media - Photographer
WWII: Through the Lens of Duane Zemper	Documentary - Historical
Childhood Places, Secret Spaces	Public/Current/Community - Feature

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

Financial Highlights

During 2008, Michigan Television implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. This Statement requires accrual-based measurement and recognition of the cost of postemployment benefits during the periods when employees render their services. Previously, Michigan Television recognized obligations for postemployment benefits as they were paid. Implementation of this Statement resulted in an increase in liabilities and a decrease in net assets of \$764,000.

At June 30, 2008, Michigan Television had assets of \$2.7 million and liabilities of \$2.4 million compared to assets of \$3.3 million and liabilities of \$826,000 at June 30, 2007. Net assets, which represent the residual interest in Michigan Television's assets after liabilities are deducted, decreased \$2.2 million to \$331,300 at June 30, 2008. Changes in net assets represent Michigan Television's results of operations and are summarized for the years ended June 30, 2008 and 2007 as follows:

	2008	2007
	(in thousands)	
Operating revenues	\$ 1,225	\$ 1,467
Operating expenses before implementation of GASB Statement No. 45	4,155	3,830
	(2,930)	(2,363)
Private gifts	675	657
General University appropriations	300	400
Other revenues, net	530	595
Decrease in net assets before capital grants and the implementation of GASB Statement No. 45	(1,425)	(711)
Capital grants	5	1,053
Implementation of GASB Statement No. 45, postemployment benefits:		
Obligations as of July 1, 2007	(712)	
Additional operating expenses for 2008	(52)	
(Decrease) increase in net assets	\$ (2,184)	\$ 342

Pursuant to a plan which commenced in 2004, the University has annually reduced its appropriations to Michigan Television in expectation of corresponding annual growth in membership (private gifts) and underwriting revenues, which has not been achieved as of June 30, 2008. Appropriations from the University totaled \$300,000 and \$400,000 in 2008 and 2007, respectively, as compared to \$900,000 in 2003.

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

In 2008, operating revenues decreased by \$242,000. The main contributor to this decrease was a reduction in Corporation for Public Broadcasting ("CPB") Community Service Grants, which are determined by the level of nonfederal revenues (both operating and capital) from two years ago. The decrease in CPB grants from 2007 to 2008 results from significant nonfederal capital grant revenue in 2005, the base year for 2007 grant funding.

Capital grants in 2007 represents \$1.0 million received for the purpose of creating a new, upgraded Broadcast Operations Center. This project, which was completed in Fall 2007, replaced obsolete master control equipment with state-of-the-art digital equipment, enabling Michigan Television to achieve more robust utilization of current digital capabilities for HDTV and greater operating efficiencies.

Operating expenses increased \$325,000 prior to the implementation of GASB Statement No. 45. Depreciation expense increased \$170,000 as a result of the capitalization of major projects. Engineering supplies expense increased \$102,000 due to one-time non-capitalized costs associated with the new Broadcast Operations Center and the relocation of the downlink satellite dish.

Using the Financial Statements

Michigan Television's financial report includes three financial statements: the Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; 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 Assets

The statement of net assets presents the financial position of Michigan Television at the end of the fiscal year and includes all assets and liabilities of Michigan Television. The difference between total assets and total liabilities — net assets — is one indicator of the current financial condition of Michigan Television, while the change in net assets is an indication of whether the overall financial condition has improved or worsened during the year. It should be noted, however, that the implementation of GASB Statement No. 45 resulted in an increase in liabilities and a decrease in net assets of \$764,000 in 2008 which significantly impacted the statement of net assets at June 30, 2008 as compared to June 30, 2007.

Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allowance for depreciation and amortization. A comparison of Michigan Television's assets, liabilities and net assets at June 30, 2008 and 2007 is summarized as follows:

	2008	2007
	(in thousands)	
Current assets	\$ 116	\$ 98
Noncurrent assets	2,626	3,243
Total assets	2,742	3,341
Current liabilities:		
Deferred revenue	306	479
Payable to the University of Michigan	1,136	142
Other current liabilities	225	205
Total current liabilities	1,667	826
Noncurrent liabilities:		
Obligations for postemployment benefits	744	
Total liabilities	2,411	826
Net assets	\$ 331	\$ 2,515

Current assets consist primarily of accounts receivable and premium inventory at June 30, 2008 and 2007. Noncurrent assets represent Michigan Television's capital assets. The decrease in noncurrent assets reflects 2008 depreciation expense in excess of capital additions. Other current liabilities consist primarily of amounts payable to the University and deferred revenue, which represents amounts received in advance of providing services. Noncurrent liabilities represent the noncurrent portion of the University's obligations for postemployment benefits.

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

Net assets represent the residual interest in Michigan Television's assets after liabilities are deducted. The composition of Michigan Television's net assets at June 30, 2008 and 2007 is summarized as follows:

	2008	2007
	(in thousands)	
Invested in capital assets, net of related debt	\$ 2,626	\$ 3,243
Unrestricted	(2,295)	(728)
	\$ 331	\$ 2,515

Net assets invested in capital assets represent Michigan Television's capital assets net of accumulated depreciation and amortization and accounts payable attributable to the acquisition, construction or improvement of those assets. The \$617,000 decrease represents 2008 depreciation in excess of capital additions.

The \$1.6 million decrease in unrestricted net assets results primarily from the implementation of GASB Statement No. 45, which decreased net assets by \$764,000, and operating expenses other than depreciation in excess of revenues of \$769,000.

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

Statement of Revenues, Expenses and Changes in Net Assets

The statement of revenues, expenses and changes in net assets presents Michigan Television's results of operations. In accordance with GASB reporting principles, revenues and expenses are classified as either operating or nonoperating. A comparison of Michigan Television's revenues, expenses and changes in net assets for the three years ended June 30, 2008 is summarized as follows:

	2008	2007	2006
	(in thousands)		
Operating revenues	\$ 1,225	\$ 1,467	\$ 1,250
Operating expenses	4,207	3,830	3,600
Operating loss	(2,982)	(2,363)	(2,350)
Nonoperating revenues (expenses):			
Private gifts	675	657	610
General University appropriations	300	400	500
Indirect administrative support	588	615	587
Other	(58)	(35)	(202)
Total nonoperating revenues, net	1,505	1,637	1,495
Loss before other revenues (expenses)	(1,477)	(726)	(855)
Other revenues (expenses):			
Capital grants	5	1,053	51
Implementation of GASB Statement No. 45, postemployment benefits as of July 1, 2007	(712)		
Other		15	42
Total other (expenses) revenues, net	(707)	1,068	93
(Decrease) increase in net assets	(2,184)	342	(762)
Net assets, beginning of year	2,515	2,173	2,935
Net assets, end of year	\$ 331	\$ 2,515	\$ 2,173

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

The following table presents a comparative summary of Michigan Television's operating revenues for the three years ended June 30, 2008:

	2008	2007	2006
		(in thousands)	
Corporation for Public Broadcasting grants	\$ 566	\$ 809	\$ 727
Production services	321	293	167
Premium sales	151	171	130
Underwriting	95	123	125
Trade	23	20	45
Other	69	51	56
	<u>\$ 1,225</u>	<u>\$ 1,467</u>	<u>\$ 1,250</u>

Operating revenues decreased \$242,000 in 2008 to \$1.2 million. This change is primarily the result of decreased grant revenue from the Corporation for Public Broadcasting as the grant funding receded to levels more consistent with reporting periods not advantaged by large grant funded capital projects.

Operating revenues increased \$217,000 in 2007 to \$1.5 million. This increase is primarily the result of increased production services activity and grant revenue from the Corporation for Public Broadcasting.

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

The following table presents a comparative summary of Michigan Television's operating expenses for the three years ended June 30, 2008:

	2008	2007	2006
	(in thousands)		
Direct:			
Programming and production	\$ 1,755	\$ 1,628	\$ 1,587
Engineering	805	754	647
Creative services	273	230	263
Development	473	336	310
Management and general	313	267	206
	3,619	3,215	3,013
Indirect:			
Programming and production	236	261	265
Engineering	210	220	193
Creative services	37	37	44
Development	63	54	51
Management and general	42	43	34
	588	615	587
Total operating expenses	\$ 4,207	\$ 3,830	\$ 3,600

Direct operating expenses increased \$404,000, or 13 percent, in 2008 to \$3.6 million, primarily due to an increase in depreciation and supplies expense, as well as the operating expense impact of implementing GASB Statement No. 45. Depreciation expense increased \$170,000 as projects, such as the station's new Broadcast Operations Center, were completed and placed into service. Engineering supplies expense increased \$102,000 due to one-time non-capitalized costs associated with these projects, while the expenses related to the purchase and handling of premium supplies for development increased \$61,000 in 2008. In addition, the implementation of GASB Statement No. 45 increased operating expenses by \$52,000. Direct operating expenses increased \$202,000, or 7 percent, in 2007 to \$3.2 million, primarily due to increases in engineering and management and general related expenses.

Indirect administrative support represents an allocated amount for donated facilities, physical plant support and institutional support incurred by the University on behalf of Michigan Television and is reflected as both indirect operating expense and nonoperating revenue.

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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 Television'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, 2008 and 2007 is as follows:

	2008	2007
	(in thousands)	
Cash received from operations	\$ 1,020	\$ 1,379
Cash expended for operations	(2,893)	(2,744)
Net cash used in operating activities	(1,873)	(1,365)
Net cash (used in) provided by capital financing activities	(35)	59
Net cash provided by noncapital financing activities	1,908	1,183
Net decrease in cash and cash equivalents	-	(123)
Cash and cash equivalents, beginning of year	-	123
Cash and cash equivalents, end of year	\$ -	\$ -

Significant sources of cash provided by noncapital financing activities include private gifts, general appropriations from the University, and an increase in the amounts payable to the University.

Economic Factors That Will Affect the Future

As the nation prepares for the federally-mandated transition to Digital Television broadcasting in 2009, Michigan Television will lead the way as the first public television station in the state of Michigan to make the total cutover from analog to pure digital television broadcasting. The long time channel 28 analog signal will be permanently retired effective November 21, 2008, leaving the WFUM-DT 28.1 digital signal in its place, with the capability of one or more additional channels of standard definition video program service. As the new fiscal year unfolds, Michigan Television is poised to offer its local and national programming in the digital broadcast television environment, both in high definition and conventional standard definition modes.

The conversion from analog to digital technology is enabling Michigan Television to plan a new generation of content across new available digital distribution streams. Michigan Television expects its digital conversion to provide a solid foundation to facilitate growth of its program service to the southeast Michigan viewership area.

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

In addition, a proposed plan includes a funding scenario for over-the-air origination of the University's local cable channel, the Michigan Channel, on one of the auxiliary multi-cast digital channels. Currently only seen on a local cable service in Washtenaw County, the Michigan Channel is a forum for debate, discussion, documentaries and public affairs, with a goal to translate the fervent intellectual life of the University to viewers outside the University. If funding is received, the Michigan Channel would reach an audience potential comparable to the current viewing area of the Michigan Television main PBS service

Opportunity and challenge are key aspects for the future of Michigan Television. The digital technology will bring new opportunity to expand audience and introduce diversified program offerings on multicast channels creating a new generation of content. However, these exciting improvements to service possibilities are jeopardized by the challenge of funding the station's operations with consistency.

To meet the challenges of the future, Michigan Television must take into account many influences outside its control. The health of the national, state and local economy, as a critical and relevant factor, can have a significant impact on funding available for public television from a broad range of sources including the Corporation for Public Broadcasting, corporate and federal sponsors, private giving and the University.

Ongoing external economic factors created a challenging environment in 2008 and are likely to do so for the foreseeable future, particularly as related to state based funding for Michigan Television through University appropriation levels. Pursuant to a plan which commenced in 2004, University appropriations have reduced annually through 2009, when support is planned to level at \$200,000 annually.

For the near term, the most pressing factor for Michigan Television surrounds the continuity and reliability of base funding sources for its operations. These factors have been under examination during the current fiscal year, with business case analysis work and development of financial options and solutions. The analyses evaluate Michigan Television's contribution to the missions of the University; it is a respected media presence providing community outreach and public service to the region. The analyses also consider new potential created by the conversion to digital, multi-stream telecasting which will debut November 2008.

While the pursuit of increased revenue support is underway, the convergence of collapsing economic fundamentals in the state of Michigan for the current and future years may require alternate operating solutions for retaining the level of performance required to be a viable public television entity. To address this uncertainty, management is considering various strategic options including other revenue alternatives and collaborations that would improve revenues and reduce costs. Station management will focus its efforts to create refined organizational and operational structures equal to the available funding resources.

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Statement of Net Assets

	June 30,	
	2008	2007
Assets		
Current Assets:		
Accounts receivable, net	\$ 36,463	\$ 27,689
Pledges receivable, net	12,440	8,799
Premium inventory	64,198	56,540
Prepaid expenses	2,706	5,365
Total Current Assets	115,807	98,393
Noncurrent Assets:		
Capital assets, net	2,626,322	3,243,298
Total Assets	\$ 2,742,129	\$ 3,341,691
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 57,090	\$ 74,737
Payable to the University of Michigan	1,135,821	141,674
Accrued compensation	148,333	130,747
Deferred revenue	305,681	479,411
Current portion of obligations for postemployment benefits	20,000	
Total Current Liabilities	1,666,925	826,569
Noncurrent Liabilities:		
Obligations for postemployment benefits	743,900	
Total Liabilities	2,410,825	826,569
Net Assets:		
Invested in capital assets, net of related debt	2,626,322	3,243,298
Unrestricted	(2,295,018)	(728,176)
Total Net Assets	331,304	2,515,122
Total Liabilities and Net Assets	\$ 2,742,129	\$ 3,341,691

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

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

	Year Ended June 30,	
	2008	2007
Operating Revenues		
Corporation for Public Broadcasting grants	\$ 566,305	\$ 809,486
Production services	320,523	293,031
Premium sales	151,391	171,394
Underwriting	95,100	122,695
Royalty income	30,411	20,898
Rental income	20,843	20,843
Trade	22,585	20,055
Other	17,955	8,723
Total Operating Revenues	1,225,113	1,467,125
Operating Expenses		
Program Services:		
Programming and production	1,990,929	1,889,165
Engineering	1,015,658	973,712
Creative services	309,601	267,682
Total Program Services	3,316,188	3,130,559
Supporting Services:		
Development	536,114	389,515
Management and general	354,527	310,107
Total Supporting Services	890,641	699,622
Total Operating Expenses	4,206,829	3,830,181
Operating loss	(2,981,716)	(2,363,056)
Nonoperating Revenues (Expenses)		
Private gifts	675,166	657,303
General appropriations from the University of Michigan	300,000	400,000
Indirect administrative support from the University of Michigan	587,919	615,055
Interest expense, net	(57,746)	(35,214)
Total Nonoperating Revenues, Net	1,505,339	1,637,144
Loss before other revenues (expenses)	(1,476,377)	(725,912)
Other Revenues (Expenses)		
Capital grants	4,559	1,053,273
Transfers from Michigan Radio		14,767
Implementation of GASB Statement No. 45, postemployment benefits obligations as of July 1, 2007	(712,000)	
Total Other (Expenses) Revenues, Net	(707,441)	1,068,040
(Decrease) increase in net assets	(2,183,818)	342,128
Net Assets, Beginning of Year	2,515,122	2,172,994
Net Assets, End of Year	\$ 331,304	\$ 2,515,122

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

WFUM-TV
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Statement of Cash Flows

	Year Ended June 30,	
	2008	2007
Cash Flows from Operating Activities		
Corporation for Public Broadcasting grants	\$ 654,837	\$ 780,486
Production services	92,857	301,906
Premium sales	151,391	171,394
Underwriting	58,303	89,219
Royalty income	30,411	20,898
Rental income	14,273	6,843
Other	17,955	8,723
Payments for salaries and benefits	(1,470,600)	(1,389,744)
Payments for program rights	(722,428)	(715,428)
Payments for operating and administrative expenses	(700,156)	(639,449)
Net Cash Used in Operating Activities	(1,873,157)	(1,365,152)
Cash Flows from Capital and Related Financing Activities		
Purchases of capital assets	(39,328)	(1,045,328)
Capital grants	4,559	1,104,057
Net Cash (Used in) Provided by Capital and Related Financing Activities	(34,769)	58,729
Cash Flows from Noncapital Financing Activities		
Private gifts	671,525	661,751
General appropriations from the University of Michigan	300,000	400,000
Amounts received from the University of Michigan	994,147	141,674
Transfers from Michigan Radio		14,767
Interest expense, net	(57,746)	(35,214)
Net Cash Provided by Noncapital Financing Activities	1,907,926	1,182,978
Net decrease in cash and cash equivalents	-	(123,445)
Cash and Cash Equivalents, Beginning of Year	-	123,445
Cash and Cash Equivalents, End of Year	\$ -	\$ -

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

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Statement of Cash Flows--Continued

	Year Ended June 30,	
	2008	2007
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (2,981,716)	\$ (2,363,056)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Indirect administrative support from the University of Michigan	587,919	615,055
Depreciation and amortization expense	656,304	486,728
Changes in assets and liabilities:		
Accounts receivable, net	(8,774)	26,569
Premium inventory	(7,658)	(23,030)
Prepaid expenses	2,659	(90)
Accounts payable	(17,647)	(29,261)
Accrued compensation	17,586	16,103
Deferred revenue	(173,730)	(94,170)
Obligations for postemployment benefits	51,900	
Net cash used in operating activities	<u>\$ (1,873,157)</u>	<u>\$ (1,365,152)</u>

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

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Notes to Financial Statements

June 30, 2008 and 2007

Note 1--Organization and Summary of Significant Accounting Policies

Organization and Basis of Presentation: WFUM-TV is a public telecommunications entity licensed by the Federal Communications Commission and operated by the University of Michigan (the "University") through its Michigan Public Media unit. WFUM-TV, channel 28 (digital channel 52), is recognized as Michigan Television and reaches over 3.3 million households in more than 200 cities in southeast and mid-Michigan from its broadcast facilities in Flint, Michigan. As a member of the Public Broadcasting Service ("PBS") and the Michigan Association of Public Broadcasters, WFUM-TV presents high-quality national and local public programs. WFUM-TV is committed to providing information, life-long learning and entertainment to the communities it serves.

WFUM-TV ("Michigan Television") operates under the control of the University's Board of Regents (the "Regents") and, in connection therewith, utilizes assets, title to which is vested in the Regents. As part of the University, Michigan Television is exempt from income taxes under Internal Revenue Code Sections 501(c)(3) and 115. The assets, liabilities, revenues, expenses and changes in net assets of Michigan Television 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"), and the American Institute of Certified Public Accountants' Audit and Accounting Guide, *Audits of State and Local Governments*. Michigan Television has the option of applying pronouncements issued by the Financial Accounting Standards Board ("FASB") after November 30, 1989, provided that such pronouncements do not conflict or contradict GASB pronouncements. Michigan Television has elected not to apply any FASB pronouncements issued after the applicable date.

During 2008, Michigan Television implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement requires accrual-based measurement and recognition of the cost of postemployment benefits during the periods when employees render their services. Previously, Michigan Television recorded obligations for postemployment benefits as they were paid. Implementation of this statement resulted in an increase in liabilities and a decrease in net assets of \$763,900 in 2008. Of this increase, \$712,000 represents a one-time nonoperating expense to reflect the present value of Michigan Television's obligations for postemployment benefits as of July 1, 2007 and \$51,900 represents the additional 2008 operating expense for obligations for postemployment benefits.

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Notes to Financial Statements--Continued

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

Net assets are categorized as:

- Invested in capital assets, net of related debt: Capital assets, net of accumulated depreciation, amortization and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- Unrestricted: Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Regents or may otherwise be limited by contractual agreements with outside parties.

Michigan Television has incurred significant operating losses and has a deficit in working capital of approximately \$1.1 million at June 30, 2008. In addition, the declines in revenues from general University appropriations and underwriting, which have resulted in reduced Corporation for Public Broadcasting grants, are expected to continue into the future. These matters raise substantial doubt about Michigan Television's ability to continue as a going concern. The financial statements for Michigan Television have been prepared assuming continuation as a going concern. No adjustments for the uncertainty have been made to the financial statements. To address this uncertainty, management is considering various strategic options including other revenue alternatives and collaborations that would improve revenue and reduce costs.

Summary of Significant Accounting Policies: The accompanying financial statements have been prepared on the accrual basis. Michigan Television reports as a special purpose government entity engaged primarily in business type activities, as defined by GASB Statement No 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. Business type activities are those that are financed in whole or in part by fees charged to external parties for goods or services.

For purposes of the statement of cash flows, Michigan Television considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Cash equivalents are those funds invested in the University Investment Pool ("UIP") that can be readily liquidated to pay contractual liabilities. Michigan Television finances its working capital requirements through participation in the UIP. Draws on the UIP vary throughout the year based on the timing of Michigan Television's cash flows. Michigan Television is charged interest on its borrowings from the University and earns interest on its funds on deposit with the University. The interest rate is based on the 90-day U.S. Treasury bill rate and at June 30, 2008 and 2007 was 2.16 percent and 5.12 percent, respectively. Michigan Television paid net interest expense of \$57,746 and \$35,214 for the years ended June 30, 2008 and 2007, respectively. Outstanding borrowings are reflected as a payable to the University of Michigan and amount to \$1,135,821 and \$141,674 at June 30, 2008 and 2007, respectively.

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Notes to Financial Statements--Continued

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

Michigan Television 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. The determination includes such factors as prior collection history, type of gift and nature of fundraising.

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.

Capital assets are recorded at cost or, if donated, at appraised value at the date of donation. Depreciation of capital assets is provided on a straight-line basis over the estimated useful lives of the respective assets, which range from three to forty years. Leasehold improvements are amortized over the shorter of their estimated useful lives or the related lease term. Michigan Television capitalizes all expenditures for land, buildings, equipment and improvements in excess of \$5,000.

Accrued compensation consists of amounts earned for services performed that will be paid in the future.

Deferred revenue consists primarily of cash received from underwriting and grant sponsors as well as cash received from a license agreement for access to Michigan Television's tower which has not yet been earned under the terms of the agreements.

Michigan Television's policy for defining operating activities as reported on the statement of revenues, expenses and changes in net assets are those that generally result from exchange transactions such as payments received for providing services and payments made for services or goods received. Nonexchange transactions are reported as nonoperating activities. Certain significant revenue streams relied upon for operations are recorded as nonoperating revenues, as defined by GASB Statement No. 35, including private gifts, general appropriations from the University and indirect administrative support from the University.

Community Service and other grants are received from the Corporation for Public Broadcasting, a private, nonprofit corporation that provides funding for public television and radio programming. Production services revenue represents grant funding of locally produced programs and short-form productions.

WFUM-TV
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Notes to Financial Statements--Continued

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

Membership contributions are recorded as premium sales and private gifts. Premium sales, which are considered operating revenues, represent the fair value of promotional items received by donors in exchange for membership contributions, and the balance of membership contributions is classified as private gifts, which are considered nonoperating revenues.

Underwriting revenue is received from corporate sponsors, nonprofit organizations, and university departments and units for on-air credit announcements. Michigan Public Media recognizes underwriting revenue as credits are aired, deferring any revenue related to unaired credits.

Royalty income represents royalties from retail distribution of television productions.

Rental income represents income from licensing access to Michigan Television's tower.

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.

General appropriations from the University provide direct support for operating expenses not provided through other sources. The University also provides indirect administrative support, which represents an allocated amount for donated facilities, physical plant support and institutional support incurred by the University on behalf of Michigan Television. Donated facilities consist of studio and administrative space, as well as related occupancy costs. Physical plant support includes transmitter utility costs remitted by the University on behalf of Michigan Television and plant expenses. Institutional support consists of allocated finance, human resources, development, technology, sponsored programs and certain other administrative costs. Indirect administrative support is reflected as nonoperating revenue and operating expense as incurred in the accompanying statement of revenues, expenses and changes in net assets. All support received from the University is recorded as nonoperating revenue.

Transfers from Michigan Radio provide direct support for operating expenses not provided through other sources.

The costs of providing various activities have been summarized on a functional basis in the statement of revenues, expenses and changes in net assets. Accordingly, certain costs have been allocated among the program and supporting activities using an objective basis such as time spent, square footage and percentage of expenses. Creative services expense includes development of visual, print and electronic creative design, imagery and copy for over the air and external media marketing of Michigan Television.

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Notes to Financial Statements--Continued

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

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.

Reclassifications: Certain prior year amounts have been reclassified to conform with current year presentations. For the reported 2007 net asset amounts, Michigan Television reclassified \$99,594 of net assets from restricted expendable to unrestricted. Funds earned from underwriting activity were previously reported as restricted expendable.

Note 2--Accounts Receivable

The composition of accounts receivable at June 30, 2008 and 2007 is summarized as follows:

	2008	2007
Grants	\$ 29,571	\$ 20,867
Underwriting	8,047	2,970
Other	570	4,000
	38,188	27,837
Less provision for uncollectible accounts receivable	1,725	148
	<u>\$ 36,463</u>	<u>\$ 27,689</u>

Note 3--Pledges Receivable

The composition of pledges receivable at June 30, 2008 and 2007 is summarized as follows:

	2008	2007
Gift pledges outstanding	\$ 47,888	\$ 36,985
Less allowance for doubtfully collectible pledges	35,448	28,186
	<u>\$ 12,440</u>	<u>\$ 8,799</u>

Payments on pledges receivable at June 30 are expected to be received during the following fiscal year.

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Notes to Financial Statements--Continued

Note 4--Capital Assets

Capital assets activity for the years ended June 30, 2008 and 2007 is summarized as follows:

2008				
	Beginning Balance	Additions	Retirements	Ending Balance
Land	\$ 5,800			\$ 5,800
Transmitter, tower and building	2,909,147			2,909,147
Studio and other equipment	1,325,594	\$ 644,046		1,969,640
Leasehold improvements	484,054			484,054
Construction in progress	604,718	(604,718)		-
	5,329,313	39,328		5,368,641
Less accumulated depreciation and amortization	2,086,015	656,304		2,742,319
	\$ 3,243,298	\$ (616,976)	\$ -	\$ 2,626,322

2007				
	Beginning Balance	Additions	Retirements	Ending Balance
Land	\$ 5,800			\$ 5,800
Transmitter, tower and building	2,909,147			2,909,147
Studio and other equipment	884,733	\$ 533,217	\$ 92,356	1,325,594
Leasehold improvements	484,054			484,054
Construction in progress	92,607	512,111		604,718
	4,376,341	1,045,328	92,356	5,329,313
Less accumulated depreciation and amortization	1,691,643	486,728	92,356	2,086,015
	\$ 2,684,698	\$ 558,600	\$ -	\$ 3,243,298

The U.S. Department of Commerce has reversionary interest in capital assets purchased in part with 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 capital assets were placed in service. One reversionary interest, with an original cost \$3,100,000, extends through 2015. Another reversionary interest, with an original cost of \$1,300,000, extends through 2018.

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Notes to Financial Statements--Continued

Note 5--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 Television's permanent employees may become eligible for these benefits if they reach retirement age while working for Michigan Television. For employees retiring on or after January 1, 1987, contributions toward health and welfare benefits are shared between Michigan Television 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 permanent Michigan Television employees who are enrolled in a sponsored long-term disability plan and qualify, based on disability status while working for Michigan Television, to receive basic or expanded long-term disability benefits. Contributions toward the expanded long-term disability plan are shared between Michigan Television 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 Television.

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.

During 2008, Michigan Television implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement requires accrual-based measurement and recognition of the cost of postemployment benefits during the periods when employees render their services. Previously, Michigan Television recognized obligations for postemployment benefits as they were paid.

WFUM-TV
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Notes to Financial Statements--Continued

Note 5--Postemployment Benefits--Continued

The University's annual other postemployment benefits ("OPEB") cost is actuarially determined in accordance with the parameters of 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 Television's annual OPEB expense and liability represents an allocation of Michigan Television'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 who qualify for retiree benefits.

Changes in the total reported liabilities in Michigan Television's obligations for postemployment benefits for the year ended June 30, 2008 are summarized as follows:

Balance, beginning of year	\$	-
Annual OPEB cost:		
One-time amortization of total unfunded actuarially accrued liability at July 1, 2007		712,000
Recurring postemployment benefits expense		72,069
Payments of current premiums and claims		<u>(20,169)</u>
Balance, end of year		763,900
Less current portion		<u>20,000</u>
		<u><u>\$ 743,900</u></u>

Michigan Television 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 Television's obligations for postemployment benefits at June 30, 2008 as a percentage of covered payroll, of \$1,008,426, was 76 percent.

In 2008, Michigan Television's annual OPEB cost represents the annual required contribution ("ARC"). The ARC represents a level of funding that an employer is projected to need in order to prefund OPEB over employees' years of service. Michigan Television has chosen to amortize its initial unfunded actuarially accrued liability over one year, the minimum period allowed by GASB Statement No. 45.

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Notes to Financial Statements--Continued

Note 5--Postemployment Benefits--Continued

At June 30, 2008, the University's OPEB liability was calculated using the projected unit credit method. Significant actuarial methods and assumptions used in the valuation are as follows:

	<u>Retiree Health and Welfare</u>	<u>Long-term Disability</u>
Discount Rate	6.4%	8.0%
Inflation Rate	3.0%	3.0%
Immediate/Ultimate Medical Trend Rate	11.7%/5.0%	11.7%/5.0%
Immediate Ultimate Rx Trend Rate	8.5%/5.0%	8.5%/5.0%
Expected Retirement Age (Faculty/Staff/Union)	66/62/61	Not Applicable
Mortality/Termination Table	RP-2000 Projected to 2014	2005 SOA Life Waiver (Modified)

Note 6--Retirement Plan

Michigan Television 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, for all qualified employees. All regular and supplemental 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.

Eligible employees generally contribute 5 percent of their pay and Michigan Television generally contributes an amount equal to 10 percent of employees' pay to the plan. Participants may elect to contribute additional amounts to the plan within specified limits that are not matched by Michigan Television contributions. Contributions and covered payroll under the plan (excluding participants' additional contributions) for the three years ended June 30, 2008 are summarized as follows:

	2008	2007	2006
Michigan Television contributions	\$ 89,248	\$ 83,230	\$ 87,222
Employee contributions	\$ 43,953	\$ 41,015	\$ 42,988
Payroll covered under plan	\$ 1,008,426	\$ 1,009,792	\$ 1,035,355
Total payroll	\$ 1,064,071	\$ 1,060,643	\$ 1,140,890

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Notes to Financial Statements--Continued

Note 7--Contingencies and Commitments

Michigan Television is a party to various pending legal actions and other claims in the normal course of business, and is of the opinion that the outcome thereof will not have a material adverse effect on its financial position.

Michigan Television is obligated under various non-cancelable operating leases for facilities, land and equipment. Rental expenses for operating leases totaled \$24,132 and \$36,893 for the years ended June 30, 2008 and 2007, respectively. The future minimum rental payments at June 30, 2008, required in connection with operating leases that have initial or remaining non-cancelable terms in excess of one year, are as follows:

2009	\$ 4,611
2010	1,000
2011	1,000
2012	1,000
2013	1,000
2014 and beyond	12,000
	<hr/>
	\$ 20,611

**Report of Independent Auditors
on Supplementary Information**

The Regents of the University of Michigan

Our report on the audit of the financial statements of WFUM-TV as of June 30, 2008 and 2007 and the years then ended appears on page 1. That audit was conducted for the purpose of forming an opinion on the financial statements, taken as a whole, which are set forth on pages 14 through 27, inclusive. The supplementary information included herein on pages 29 and 30 is presented for purposes of additional analysis and is not a required part of the financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects in relation to the financial statements taken as a whole.

PricewaterhouseCoopers LLP

February 9, 2009

WFUM-TV
(A PUBLIC TELECOMMUNICATIONS ENTITY
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**Schedule of Functional Expenses
For the Year Ended June 30, 2008**

	Program Services			Supporting Services			Total Operating Expenses	
	Programming and Production	Engineering	Creative Services	Total Program Services	Development	Management and General		Total Supporting Services
Salaries, payroll taxes and employee benefits	\$ 553,093	\$ 416,617	\$ 191,098	\$ 1,160,808	\$ 113,298	\$ 214,082	\$ 327,380	\$ 1,488,188
Indirect administrative support	235,943	209,736	36,691	482,370	63,534	42,015	105,549	587,919
Program fees	722,428			722,428			-	722,428
Depreciation and amortization	321,195	156,069	48,501	525,765	73,900	56,639	130,539	656,304
Professional services	107,556	38,464	3,487	149,507	60,208	23,786	83,994	233,501
Membership and dues	5,380			5,380	9,329		9,329	14,709
Supplies	22,250	159,416	11,236	192,902	20,064	6,954	27,018	219,920
Premium supplies				-	141,945		141,945	141,945
Advertising	242		560	802	11,379		11,379	12,181
Leased space	1,736	22,142	12,669	36,547			-	36,547
Travel and conferences	7,747	4,144	4,046	15,937	6,330	5,679	12,009	27,946
Repairs and maintenance	5,360	7,023		12,383		239	239	12,622
Telecommunications	5,833	1,910		7,743	7,933	3,816	11,749	19,492
Postage and freight	1,149	137	755	2,041	17,867	1,243	19,110	21,151
Merchant service fees				-	8,237		8,237	8,237
Other	1,017		558	1,575	2,090	74	2,164	3,739
Total Operating Expenses	\$ 1,990,929	\$ 1,015,658	\$ 309,601	\$ 3,316,188	\$ 536,114	\$ 354,527	\$ 890,641	\$ 4,206,829

WFUM-TV
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**Schedule of Functional Expenses
For the Year Ended June 30, 2007**

	Program Services			Supporting Services			Total Operating Expenses	
	Programming and Production	Engineering	Creative Services	Total Program Services	Development	Management and General		Total Supporting Services
Salaries, payroll taxes and employee benefits	\$ 528,755	\$ 417,628	\$ 184,633	\$ 1,131,016	\$ 90,091	\$ 184,739	\$ 274,830	\$ 1,405,846
Indirect administrative support	261,352	219,885	37,032	518,269	53,886	42,900	96,786	615,055
Program fees	715,428			715,428			-	715,428
Depreciation and amortization	186,135	205,774	26,146	418,055	38,382	30,291	68,673	486,728
Professional services	142,879	20,704	2,508	166,091	46,096	39,677	85,773	251,864
Membership and dues	3,121			3,121	9,153		9,153	12,274
Supplies	7,891	57,313	4,702	69,906	4,025	1,944	5,969	75,875
Premium supplies				-	80,608		80,608	80,608
Advertising		257	3,970	4,227	20,420	200	20,620	24,847
Leased space	14,344	21,518	120	35,982			-	35,982
Travel and conferences	3,644	940	6,426	11,010	6,721	4,517	11,238	22,248
Repairs and maintenance	14,149	15,703	1,287	31,139	21,251	176	21,427	52,566
Telecommunications	5,960	4,504		10,464	712	3,936	4,648	15,112
Postage and freight	1,584	8,999	564	11,147	8,621	1,260	9,881	21,028
Merchant service fees				-	7,552		7,552	7,552
Other	3,923	487	294	4,704	1,997	467	2,464	7,168
Total Operating Expenses	\$ 1,889,165	\$ 973,712	\$ 267,682	\$ 3,130,559	\$ 389,515	\$ 310,107	\$ 699,622	\$ 3,830,181