

Q&A #1
RFP #600922
Radio Station Audits

1. Question: (Two versions of same question)

Can you send me a copy of the prior year reports that were issued by the external audit firm?

Could I please get a copy of the prior year audit reports for these two radio stations?

Answer: The audit reports are attached.

KUAF-FM
FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014
(With Independent Auditor's Report Thereon)

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Independent Auditor's Report

Audit and Fiscal Responsibility Committee Chair
University of Arkansas System
2404 N. University Avenue
Little Rock, AR 72207

We have audited the accompanying financial statements of KUAF-FM as of and for the year ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise KUAF-FM's basic financial statements as listed in the table of contents.

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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 the auditor's 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, the auditor considers internal control relevant to the entity'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 the entity'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 KUAF-FM, as of June 30, 2015 and 2014, and the respective 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.

Emphasis of Matter

As discussed in Note 1, the financial statements present only KUAF-FM and do not purport to, and do not, present fairly the financial position of the University of Arkansas at Fayetteville, Arkansas, as of June 30, 2015 and 2014, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified in respect to this matter.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on page 3 through 6 be presented 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 audit 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 04, 2015, on our consideration of KUAF-FM's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering KUAF-FM's internal control over financial reporting and compliance.

EGP, PLLC

December 04, 2015

Certified Public Accountants & Consultants

KUAF PUBLIC RADIO
Licensed to the Board of Trustees, University of Arkansas
Management's Discussion and Analysis
For the Years Ended June 30, 2015 and 2014

Introduction and Reporting Entity

The following discussion and analysis is an overview of the financial position and activities of KUAF Public Radio for the years ended June 30, 2015 and 2014. Management of KUAF has prepared the following discussion, and it should be read with the financial statements and related footnotes which follow this section.

KUAF is owned by the University of Arkansas and licensed by the Federal Communications Commission to the University's Board of Trustees whose members are appointed by the governor of Arkansas. KUAF is a non-commercial, educational radio station with studios and offices located in downtown Fayetteville just off the campus of the University of Arkansas. The antenna and transmitter are located 22 miles SSE of Fayetteville near Brentwood, AR. Operating with the maximum power of 100,000 watts, KUAF broadcasts to 10 counties in northwest Arkansas, four counties in Oklahoma and two counties in Missouri and serves a potential audience of over 600,000 people. Out of that number approximately 50,000 people tune in every week. Over 3,000 listeners make annual financial contributions to KUAF.

The station went on the air in 1973 with 10-watts of power and was operated by students at the University of Arkansas. Oversight was provided by broadcast faculty in the Department of Journalism. In 1985, a new student station was built and KUAF became a full-time, professionally operated public radio station broadcasting a mix of NPR news, local news, classical music, jazz and other programs. Steady growth in fundraising and audience numbers resulted in KUAF being one of the top public radio stations in the U.S.

Overview of the Financial Statements

The financial statements of KUAF consist of the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position and the Statement of Cash Flows (direct method). These statements are prepared in conformity with Government Accounting Standards Board ("GASB") Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which incorporates Financial Accounting Standards Board ("FASB") pronouncements and Accounting Principles Board ("APB") opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

The Statement of Net Position includes Assets, Liabilities and Net Position of KUAF as of June 30, 2015 and 2014. This statement is classified into Current and Non-Current Assets and Liabilities, with Net Position classified in the categories as noted above. The Statement of Revenues, Expenses and Changes in Net Position depicts the operating revenues and expenses resulting in Net Operating Income (Loss), which is then combined with Non-Operating Revenues (Expenses) to provide the total Change in Net Position. The Statement of Cash Flows shows the sources and uses of cash from operations, cash flows from non-capital financing activities, cash flows from capital and related financing activities and cash flows from investing activities. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

KUAF PUBLIC RADIO
Licensed to the Board of Trustees, University of Arkansas
Management's Discussion and Analysis
For the Years Ended June 30, 2015 and 2014

Financial Highlights

The financial position of KUAF at June 30, 2015 remains very strong. Net position totaled \$2,410,365 for the year ended June 30, 2015, compared to \$2,440,444 for the year ended June 30, 2014. KUAF's Net Position decreased by \$30,079 in FY 2015 from fiscal year 2014.

KUAF's Operating Revenues were up in FY 2015 compared to last year. Operating Revenues totaled \$939,273 in FY 2015 compared to \$881,515 in FY 2014, an increase of \$57,758. Operating Expenses for FY 2015 were \$1,441,298 compared to FY 2014 expenses which were \$1,399,119. While it would appear the station is operating at a major loss, once support from the University of Arkansas is added the picture changes. Operating transfer from the U of A of \$414,543 (\$104,402 is noncash Indirect Overhead) added to Non-Operating Income (Expense) of \$57,403 and Operating Revenue of \$939,273 for the year creates a total of \$1,411,219, a deficit of \$30,079.

Fundraising for the fiscal year was up over FY 2014. Local business support was up by \$23,812 and listener support increased by \$17,825. The total increase in local fundraising of \$41,637 continues a three year trend of increases. We expect our local fundraising will continue to result in more funding through improved fundraising techniques. The station's Fall, 2015 on-air fundraiser was the best in the history of KUAF. Listener donations in the first quarter of FY 2016 are ahead of the same period of FY 2015.

KUAF's property and equipment, net of accumulated depreciation, totaled \$2,109,127 for FY 2015 compared to \$2,135,716 in FY 2014. There were no significant property and equipment additions in FY 2014. Construction of a new broadcast facility for KUAF resulted in additions in FY 2010 of \$981,721, and in FY 2009 of \$988,303. The increases in FY 2010 and 2009 were primarily the cost of building a new facility to house KUAF. The building is located in downtown Fayetteville next to a new public library. A \$1.5 million capital campaign was undertaken by KUAF staff in FY 2008 to pay for the renovation of the building and an addition on the building that has resulted in a modern facility of over 7,000 square feet. This has resulted in a major improvement over the station's campus home of nearly 20 years, which was an old apartment building where the station operated out of 2,500 square feet.

Since starting in FY 2008, over \$1.1million had been pledged to the KUAF capital campaign by June 30, 2010 with most pledges scheduled for payment by FY 2013. Construction of the new building was completed in January, 2010. In order to pay for the building KUAF was awarded bond proceeds of \$1,008,000 from a much larger bond secured by the University of Arkansas for campus construction projects. KUAF has a repayment schedule of approximately \$66,000 a year for 30 years.

KUAF PUBLIC RADIO
Licensed to the Board of Trustees, University of Arkansas
Management's Discussion and Analysis
For the Years Ended June 30, 2015 and 2014

Financial Analysis of the Statements

KUAF-FM condensed financial statements represented below for FY 2015 and 2014.

Condensed Statements of Net Position

Assets:	<u>2015</u>	<u>2014</u>
Current Assets	\$ 1,282,211	\$ 1,315,598
Noncurrent	<u>2,109,127</u>	<u>2,135,716</u>
Total Assets	<u>\$ 3,391,338</u>	<u>\$ 3,451,314</u>
Liabilities:		
Current Liabilities	\$ 72,973	\$ 80,870
Noncurrent liabilities	<u>908,000</u>	<u>930,000</u>
Total Liabilities	<u>\$ 980,973</u>	<u>\$ 1,010,870</u>
Net Position:		
Invested in capital assets	\$ 1,179,127	\$ 1,184,716
Restricted	642,213	589,398
Unrestricted	<u>589,025</u>	<u>666,330</u>
Total Net Position	<u>\$ 2,410,365</u>	<u>\$ 2,440,444</u>

Condensed Statements of Revenues, Expenses and Changes in Net Position

	<u>2015</u>	<u>2014</u>
Corporation for Public Broadcasting Grant	\$ 130,772	\$ 125,976
Other operating revenues	808,501	755,539
Operating expenses	<u>(1,441,298)</u>	<u>(1,399,119)</u>
Operating loss	(502,025)	(517,604)
Nonoperating support and revenues	<u>471,946</u>	<u>404,344</u>
Change in Net Position	<u>\$ (30,079)</u>	<u>\$ (113,260)</u>
Net position-beginning of year	<u>2,440,444</u>	<u>2,553,704</u>
Net position-end of year	<u>\$ 2,410,365</u>	<u>\$ 2,440,444</u>

KUAF PUBLIC RADIO
Licensed to the Board of Trustees, University of Arkansas
Management's Discussion and Analysis
For the Years Ended June 30, 2015 and 2014

Condensed Statements of Cash Flows

	<u>2015</u>	<u>2014</u>
Net cash used by operating activities	\$ (379,074)	\$ (425,384)
Net cash provided by noncapital financing activities	402,505	393,550
Net cash provided (used) by capital and related financing activities	(63,173)	(31,192)
Net cash provided by investing activities	<u>8,264</u>	<u>7,952</u>
Net decrease in cash and cash equivalents	(31,478)	(55,074)
Cash and cash equivalents—beginning of year	<u>1,252,997</u>	<u>1,308,071</u>
Cash and cash equivalents—end of year	<u>\$ 1,221,519</u>	<u>\$ 1,252,997</u>

Current Assets consist primarily of restricted and unrestricted cash and cash equivalents, contributions receivable, restricted investments, and prepaid expenses. Non-Current Assets consist primarily of property and equipment. Property and equipment are presented net of accumulated depreciation. Current Liabilities consist of compensated absences, accounts payable and current portion of bond payable.

Operating Revenues consist primarily of membership contributions, community service grants from CPB, business (underwriting) support, and contributed support. Additional support is provided by the University of Arkansas. Operating expenses consist primarily of broadcasting, programming and production, program information, management and general, depreciation, fundraising and membership development, and grants and underwriting. Non-Operating Revenues consist of investment income.

Request for Information

This financial report is designed to provide donors, members, investment managers, foundations, and taxpayers with a general overview of the KUAF-FM's finances and to account for the funding it receives. It is also intended to help the reader better understand the changes in the financial statement format. Additional details can be requested by mail at the following address:

KUAF-FM
University of Arkansas Public Radio
9 S. School Ave.
Fayetteville, AR 72701

KUAF-FM
Statement of Net Position
June 30, 2015 and 2014
(See independent auditor's report.)

	2015	2014
<u>Assets</u>		
Current Assets		
Cash and cash equivalents	\$ 608,333	\$ 692,803
Restricted cash and cash equivalents	613,186	560,194
Investments - restricted	29,027	29,204
Contributions receivable	16,477	30,322
Due from University of Arkansas at Fayetteville	12,038	-
Prepaid expenses	3,150	3,075
Total Current Assets	1,282,211	1,315,598
Noncurrent assets		
Capital assets, net	2,109,127	2,135,716
Total Noncurrent Assets	2,109,127	2,135,716
Total Assets	\$ 3,391,338	\$ 3,451,314
<u>Liabilities and Net Position</u>		
Current Liabilities		
Accounts payable	\$ 16,826	\$ 22,456
Compensated absences payable	34,147	37,414
Current portion of bond payable	22,000	21,000
Total Current Liabilities	72,973	80,870
Noncurrent Liabilities		
Bonds payable	908,000	930,000
Net Position		
Invested in capital assets	1,179,127	1,184,716
Restricted net position for building and scholarship funds	642,213	589,398
Unrestricted net position	589,025	666,330
Total Net Position	2,410,365	2,440,444
Total Liabilities and Net Position	\$ 3,391,338	\$ 3,451,314

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

KUAF-FM
Statement of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30, 2015 and 2014
(See independent auditor's report.)

	<u>2015</u>	<u>2014</u>
Operating Revenues		
Program underwriting	\$ 274,013	\$ 250,201
Membership contributions	466,939	449,114
The Corporation for Public Broadcasting grant	130,772	125,976
Contributed support	67,549	56,224
Total Operating Revenues	<u>939,273</u>	<u>881,515</u>
Operating Expenses		
Programming and production	736,294	722,546
Management and general	413,645	395,265
Broadcasting	112,704	131,352
Grants expense	83,376	83,220
Fund-raising and membership development	81,185	64,381
Program information	14,094	2,355
Total Operating Expenses	<u>1,441,298</u>	<u>1,399,119</u>
Operating Loss	<u>(502,025)</u>	<u>(517,604)</u>
Non-Operating Income (Expense)		
Investment income	7,756	10,573
Other income (expense)	331	221
Building campaign contributions	50,000	-
Loss from disposal of equipment	(684)	-
Total Non-Operating Income (Expense)	<u>57,403</u>	<u>10,794</u>
Loss Before Operating Transfers	<u>(444,622)</u>	<u>(506,810)</u>
Operating transfers from the University of Arkansas at Fayetteville	<u>414,543</u>	<u>393,550</u>
Change in Net Position	<u>(30,079)</u>	<u>(113,260)</u>
Net position - beginning of year	<u>2,440,444</u>	<u>2,553,704</u>
Net Position - End of Year	<u>\$ 2,410,365</u>	<u>\$ 2,440,444</u>

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

KUAF-FM
Statement of Cash Flows
For the Years Ended June 30, 2015 and 2014
(See independent auditor's report.)

	2015	2014
Cash Flows from Operating Activities:		
Cash received from:		
Program underwriting receipts	\$ 287,858	\$ 247,641
Membership contributions	466,939	449,114
Radio Community Service Grant	130,772	125,976
Contributed support	67,549	56,224
Cash payments for:		
Payments for programming and production	(718,393)	(704,645)
Payments for broadcasting	(64,943)	(96,074)
Payments for program information and promotion	(14,094)	(2,355)
Payments to suppliers and employees	(375,807)	(359,270)
Payments for fund-raising and membership development	(75,579)	(58,775)
Payments for grants	(83,376)	(83,220)
Net Cash Required by Operating Activities	(379,074)	(425,384)
Cash Flow from Noncapital Financing Activities:		
Transfers from the University of Arkansas at Fayetteville	402,505	393,550
Net Cash Provided by Noncapital Financing Activities	402,505	393,550
Cash Flow from Capital and Related Financing Activities:		
Principal payments on revenue bond	(21,000)	(20,000)
Purchase of capital assets	(92,173)	(11,192)
Capital campaign contributions	50,000	-
Net Cash Provided (Required) by Capital and Related Financing Activities	(63,173)	(31,192)
Cash Flows from Investing Activities:		
Net change in investments	177	(2,842)
Other income	331	221
Investment income	7,756	10,573
Net Cash Provided by Investing Activities	8,264	7,952
Increase (Decrease) in Cash and Cash Equivalents	(31,478)	(55,074)
Cash and cash equivalents - beginning of year	1,252,997	1,308,071
Cash and Cash Equivalents - End of year	\$ 1,221,519	\$ 1,252,997

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

Reconciliation of Operating Loss to Net Cash**Provided (Required) by Operating Activities:**

Operating loss	\$ (502,025)	\$ (517,604)
Adjustments to reconcile operating loss to net cash required by operating activities:		
Depreciation	118,078	105,595
(Increase) decrease in assets:		
Contributions receivable	13,845	(2,560)
Prepaid expenses	(75)	(75)
Increase (decrease) in liabilities:		
Accounts payable	(5,630)	(10,892)
Compensated absences payable	(3,267)	152
Net Cash Provided (Required) by Operating Activities	<u>\$ (379,074)</u>	<u>\$ (425,384)</u>

KUAF-FM
Notes to Financial Statements
June 30, 2015 and 2014

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1. **Summary of Significant Accounting Policies**

Nature of Operations

KUAF-FM ("KUAF"), is a licensed public telecommunications radio station operated as part of the journalism department within the College of Arts and Sciences at the University of Arkansas, Fayetteville (the "University"). KUAF presents national public radio news and classical and jazz music to a potential audience of 600,000 listeners. KUAF is dedicated to bringing fine arts programming to Northwest Arkansas and the surrounding areas. KUAF is supported by the University, the Corporation for Public Broadcasting ("CPB"), underwriters, contributors and member listeners.

In accordance with the University's policies, certain cash, pledge and investment accounts of KUAF are held and administered by the University of Arkansas Foundation, Inc. ("The Foundation"), a legally separate nonprofit entity. The Foundation administers and invests gifts and other amounts received directly or indirectly as a result of fund-raising activities of various units of the University and other affiliated entities related to the University. Accounts held at The Foundation for the benefit of KUAF are included in these financial statements.

Principles of Operations

KUAF has adopted Government Accounting Standards Board ("GASB") Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which incorporates Financial Accounting Standards Board ("FASB") pronouncements and Accounting Principles Board ("APB") opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. Although a significant amount of KUAF's resources are derived from general contributions and support from the Corporation for Public Broadcasting Radio Community ("CPB") and the University, its accounting policy is to prepare its financial statements as a business type activity, rather than as a governmental fund type, since the CPB prefers the recipients of its funds to utilize this basis for financial statement presentation. Accordingly, KUAF utilizes the economic resources measurement focus and the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable.

Operating revenues and expenses are distinguished from other revenue and expense items. Operating revenues and expenses generally result from providing services in connection with the principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues (expenses), but remain a major component of the overall revenues and expenses of KUAF.

KUAF-FM
Notes to Financial Statements
June 30, 2015 and 2014

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1. **Summary of Significant Accounting Policies (continued)**

Cash and Cash Equivalents

For purposes of the statement of cash flows, KUAF considers all highly liquid cash investments with a maturity of three months or less to be cash equivalents. For financial statement purposes, funds are held by the University and The Foundation on behalf of KUAF.

Contributions Receivable

KUAF utilizes the allowance method of accounting for uncollectible accounts receivable. Amounts are written off at the point when collection attempts have been exhausted, which is based on individual credit evaluation and specific circumstances of the donor. Management uses significant judgment in estimating uncollectible amounts. In estimating uncollectible amounts, management considers factors such as current overall economic conditions, industry-specific economic conditions, historical donor performance and anticipated donor performance. While management believes KUAF's processes effectively address its exposure to doubtful accounts, changes in economic, industry or specific donor conditions may require adjustment to the allowance recorded by the Department. At June 30, 2015 and 2014, management determined that an allowance for doubtful accounts was not necessary.

Capital Assets

All capital assets are valued at cost, except for donated equipment which is capitalized at the fair market value at the date of donation. Maintenance and repair costs are charged to expense as incurred. Depreciation is computed on the straight-line method for financial reporting purposes, based on the estimated useful lives of the assets which range from 3 to 30 years. Interest costs are capitalized when incurred on debt where proceeds were used to finance the construction of assets. KUAF capitalizes all purchases over \$2,500, with a useful life over one year.

Investments

Investments consist of marketable securities at The Foundation and are presented on the statements of net position at fair market value based on quoted market prices as of June 30, 2015 and 2014. Any concentration of credit risk from investments is expected to be insignificant.

Contributions

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and unrestricted net position. Gifts received with a donor stipulated time restriction are reported in restricted net position. When the donor stipulated time restriction ends, the contributions are reclassified to unrestricted net position.

KUAF-FM
Notes to Financial Statements
June 30, 2015 and 2014

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1. **Summary of Significant Accounting Policies (continued)**

Functional Allocation of Expenses

The costs of providing the various program services and other 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 services on the basis of benefits received and based upon management's best estimate.

Donated Facilities and Services

Administrative support is received from the University which consists of allocated financial department costs and other expenses incurred on behalf of KUAF. All such support from the University is recorded as an operating transfer.

Tax Status

KUAF is considered a political subdivision of the University and, therefore, is exempt from income taxes.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Use of Restricted Funds

When both restricted and unrestricted resources are available for use, it is KUAF's policy to use restricted resources first, then unrestricted resources as they are needed.

Subsequent Events

Management has evaluated subsequent events through December 04, 2015, which represents the date the financial statements were available to be issued.

2. **Deposits**

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. KUAF funds are held by the University and The Foundation. The University accounts are insured by the Federal Deposit Insurance Corporation or collateral held by the Federal Reserve. The Foundation accounts are also insured or collateralized. Any concentrations of credit risk are expected to be insignificant.

KUAF-FM
Notes to Financial Statements
June 30, 2015 and 2014

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3. **Contributions Receivable**

The promises to give are unconditional and as follows at June 30:

	2015		2014	
	Current	Long Term	Current	Long Term
Underwriting	16,477	-	26,918	-
Other	-	-	3,404	-
	<u>\$ 16,477</u>	<u>-</u>	<u>\$ 30,322</u>	<u>-</u>

4. **Capital Assets**

Capital assets consist of the following as of June 30, 2015:

	2014	Additions	Transfers	Disposals	2015
Land	\$ 389,157	-	-	-	\$ 389,157
Equipment	378,042	92,173	-	(56,348)	413,867
Building	2,044,993	-	-	-	2,044,993
Radio tower	246,947	-	-	-	246,947
	<u>3,059,139</u>	<u>92,173</u>	<u>-</u>	<u>(56,348)</u>	<u>3,094,964</u>
Less accumulated depreciation	<u>(923,423)</u>	<u>(118,078)</u>	<u>-</u>	<u>55,664</u>	<u>(985,837)</u>
	<u>\$2,135,716</u>	<u>(25,905)</u>	<u>-</u>	<u>(684)</u>	<u>\$ 2,109,127</u>

Capital assets consists of the following as of June 30, 2014:

	2013	Additions	Transfers	Disposals	2014
Land	\$ 389,157	-	-	-	\$ 389,157
Equipment	378,042	-	-	-	378,042
Building	2,033,801	11,192	-	-	2,044,993
Radio tower	246,947	-	-	-	246,947
	<u>3,047,947</u>	<u>11,192</u>	<u>-</u>	<u>-</u>	<u>3,059,139</u>
Less accumulated depreciation	<u>(817,828)</u>	<u>(105,595)</u>	<u>-</u>	<u>-</u>	<u>(923,423)</u>
	<u>\$2,230,119</u>	<u>(94,403)</u>	<u>-</u>	<u>-</u>	<u>\$ 2,135,716</u>

KUAF-FM
Notes to Financial Statements
June 30, 2015 and 2014

5. **Tower Lease**

KUAF has a lease agreement with Gulf Star Communications of Arkansas to lease space on its broadcast tower. The lease will expire in 2015. In addition, KUAF has a copier lease that will expire in 2016. Approximate future minimum payments under these leases with commitments beyond one year are as follows:

2016	\$ 13,855
2017	4,020
2018	4,020
2019	4,020
2020	4,020

Total rental expense incurred during the years ended June 30, 2015 and 2014, was \$45,024 and \$41,497, respectively.

6. **Personnel Expenses**

All personnel working at KUAF are employees of the University, and thus are eligible for retirement or other benefits provided by the University. KUAF reimburses the University for all wages and benefits related to the operations of KUAF.

7. **Bonds Payable**

The University issued various Facility Revenue Bonds, Series 2008A and 2008B in the amount of \$51,960,000 on August 1, 2008. The proceeds of these bonds will be used for financing all or a portion of certain capital improvements for the University. The bond bears interest at 4.00% per annum, increasing each year by 0.125% in 2019 – 2021 and to 5.00% in 2022 for the remainder of the bond term. Specifically, bond proceeds of \$1,000,000 will be used to supplement private fund-raising to renovate and expand a building owned by the University which will house the radio station. KUAF's portion of the original bond issuance was \$1,008,000 (including bond issuance costs) and is recorded on their books. The total amount of interest expense during the year ended June 30, 2015 and 2014, was \$45,266 and \$46,092, respectively.

KUAF-FM
Notes to Financial Statements
June 30, 2015 and 2014

7. **Bonds Payable (continued)**

Future maturities of these bonds are as follows:

	Principal	Interest	Total Principal and Interest
2016	\$ 22,000	44,544	\$ 66,544
2017	23,000	43,644	66,644
2018	23,000	42,724	65,724
2019	24,000	41,784	65,784
2020	25,000	40,788	65,788
2021-2025	147,000	185,161	332,161
2026-2030	186,000	144,150	330,150
2031-2035	240,000	91,200	331,200
2036-2039	240,000	24,750	264,750
	<u>\$ 930,000</u>	<u>658,744</u>	<u>\$ 1,588,744</u>

The following is a summary of the bonds payable activity:

	Balance June 30, 2014	Payments	Advances	Balance June 30, 2015
KUAF portion of University Revenue bonds	\$ 951,000	(21,000)	-	\$ 930,000

	Balance June 30, 2013	Payments	Advances	Balance June 30, 2014
KUAF portion of University Revenue bonds	\$ 971,000	(20,000)	-	\$ 951,000

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Audit and Fiscal Responsibility Committee Chair
University of Arkansas System
2404 N. University Avenue
Little Rock, AR 72207

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of KUAF-FM ("KUAF"), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise KUAF's basic financial statements, and have issued our report thereon dated December 04, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered KUAF's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of KUAF's internal control. Accordingly, we do not express an opinion on the effectiveness of KUAF's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether KUAF's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

EGP, PLLC

December 04, 2015

Certified Public Accountants and Consultants

KLRE-FM/KUAR-FM

FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

(With Independent Auditor's Report Thereon)

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Independent Auditor's Report

Audit and Fiscal Responsibility Committee Chair
University of Arkansas System
2404 N. University Avenue
Little Rock, AR 72207

We have audited the accompanying financial statements of KLRE-FM/KUAR-FM as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise KLRE-FM/KUAR-FM's basic financial statements as listed in the table of contents.

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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 the auditor's 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, the auditor considers internal control relevant to the entity'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 the entity'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 KLRE-FM/KUAR-FM, as of June 30, 2015 and 2014, and the respective 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.

Emphasis of Matter

As discussed in Note 1, the financial statements present only KLRE-FM/KUAR-FM and do not purport to, and do not, present fairly the financial position of the University of Arkansas at Little Rock, Arkansas, as of June 30, 2015 and 2014, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified in respect to this matter.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented 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 audit 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2015, on our consideration of KLRE-FM/KUAR-FM's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering KLRE-FM/KUAR-FM's internal control over financial reporting and compliance.

EGP, PLLC

December 17, 2015

Certified Public Accountants & Consultants

KLRE-FM/KUAR-FM
(A DEPARTMENT OF THE UNIVERSITY OF ARKANSAS AT LITTLE ROCK)
Management's Discussion and Analysis
For the Years Ended June 30, 2015, 2014, and 2013 (Unaudited)

Introduction and Reporting Entity

The following discussion and analysis is an overview of the financial position and activities of KLRE-FM/KUAR-FM for the years ended June 30, 2015, 2014, and 2013. Management of KLRE-FM/KUAR-FM has prepared the following discussion, and it should be read with the financial statements and related footnotes which follow this section.

KLRE-FM/KUAR-FM is an instrumentality of the State of Arkansas and is governed by the Board of Trustees of the University of Arkansas, whose members are appointed by the Governor of Arkansas.

KLRE-FM/KUAR-FM's primary function is to maintain noncommercial educational telecommunications facilities within Arkansas and to provide transmission of noncommercial educational telecommunications programs throughout the central part of the State.

KLRE-FM and KUAR-FM are licensed to the Board of Trustees of the University of Arkansas. KLRE-FM and KUAR-FM broadcast two separate program streams, both originating from Little Rock, Arkansas. The two stations reach an estimated 300,000 households, and out of that number approximately 80,000 persons listen each week. Contributing membership consists of approximately 3,500 households.

Overview of the Financial Statements

KLRE-FM/KUAR-FM's financial statements present the two radio stations and their component units.

Funds from UALR and the Friends of KLRE/KUAR are reported as blended component units. Friends of KLRE/KUAR is a citizen support organization which solicits funds to be used to support program production and broadcasting of public radio. Funds are held in the University of Arkansas Foundation.

The financial statements of KLRE-FM/KUAR-FM consist of the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position and the Statement of Cash Flows (direct method). These statements are prepared in conformity with Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

The Statement of Net Position includes Assets, Liabilities and Net Position of the Commission as of June 30, 2015 and 2014. This statement is classified into Current and Non-Current Assets and Liabilities, with Net Position classified in the categories as noted above. The Statement of Revenues, Expenses and Changes in Net Position depicts the operating revenues and expenses resulting in Net Operating Income (Loss), which is then combined with Non-Operating Revenues (Expenses) to provide the total Change in Net Position. The Statement of Cash Flows shows the sources and uses of cash from operations, cash flows from non-capital financing activities, cash flows from capital and related financing activities and cash flows from investing activities. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

Financial Highlights

KLRE/KUAR had a decrease in its Net Position of \$89,507 by June 30, 2015. This change followed an increase of \$171,558 at the end of FY 2014, and a decrease of \$96,628 at the end of FY 2013, for a total decrease over the 3 year period of \$14,577. The decrease for FY 2015 was due to decreases in Program Underwriting and Contributions raised by Friends, as well as a decrease in Non-Operating Revenues. Net position for the year ending June 30, 2015 totaled \$813,542, \$903,049 for the year ending June 30, 2014 (FY 2014), and \$731,491 for the year ending June 30, 2013 (FY 2013).

Operating Revenues were at \$758,678 for FY 2015, compared to \$1,045,790 in FY 2014, and \$864,299 in FY 2013. Program Underwriting was down \$52,188 from FY 2014 at \$212,072 with the underwriting coordinator on medical leave for three months. Program underwriting was \$264,260 in FY 2014 and \$267,285 in FY 2013. Contributions raised by Friends were significantly down in FY 2015 at \$418,430 as compared to \$657,170 in FY 2014. FY 2014 figures included a one-time gift from a revocable trust of \$156,792; however, FY 2015 Contributions were also down from FY 2013 at \$471,371. Decrease in FY 2015 was partly due to the retirement of the development director, a position that was unfilled for five months of FY 2015, and to some internal problems with the UALR Development Office, which processes payments for the Friends. The UALR Development Office reimbursed KLRE/KUAR for the problems with \$23,032, which is included in Operating Transfers from UALR.

KLRE/KUAR's Operating Expenses decreased by 4% in FY 2015 compared with the previous fiscal year, with totals of \$1,265,498 in FY 2015, \$1,320,279 in FY 2014, and \$1,389,170 in FY 2013. The Net Operating Loss for FY 2015 was \$506,820, including non-cash depreciation expense of \$51,029, compared with a \$274,489 loss in FY 2014, including \$48,030 in non-cash depreciation and \$524,871 in FY 2013, with non-cash depreciation of \$53,290.

Net Non-Operating Revenues were down in FY 2015 by \$33,858, from FY 2014, with the fair value of the Ledbetter Endowment Fund decreasing in FY 2015 by \$1,991 compared to an increase of \$32,000 in FY 2014 and an increase of \$19,297 in FY 2013. Non-Operating Revenues were \$71,744 in FY 2015, compared to \$105,602 in FY 2014, and \$91,521 in FY 2013.

Operating transfers from the University of Arkansas at Little Rock increased slightly in FY 2015 with the transfer from UALR Development Office mentioned earlier. Totals for FY 2015 were \$345,569 compared to \$340,445 in FY 2014 and 336,722 in FY 2013.

KLRE-FM/KUAR-FM's property and equipment, net of accumulated depreciation, totaled \$535,419 at June 30, 2015. No property or equipment was added in FY 2015. The amount on June 30, 2014, was \$586,448. The amount was \$606,837 at June 30, 2013. Property and equipment additions totaled \$0 in FY 2015; \$27,641 in FY 2014, and \$24,547 in FY 2013.

Financial Analysis of the Statements

KLRE-FM/KUAR-FM condensed financials statements represented below for FY 2015, 2014, and 2013.

	Summary of Net Position		
	June 30,		
	2015	2014	2013
Assets:			
Current Assets	\$ 129,190	\$ 217,269	\$ 277,022
Non-Current Assets	862,078	915,098	903,487
Total Assets	<u>991,268</u>	<u>1,132,367</u>	<u>1,180,509</u>
Liabilities:			
Current Liabilities	177,726	194,318	449,018
Long-Term Debt, Less Current Position		35,000	
Net Position:			
Invested in Capital Assets	535,419	586,448	606,837
Restricted for:			
Endowment	250,000	250,000	250,000
Unrestricted	28,123	66,601	(125,346)
Total Net Position	<u>\$ 991,268</u>	<u>\$ 1,132,367</u>	<u>\$ 1,180,509</u>

Condensed Statement of Revenues, Expenses and Changes in Net Position

	2015	2014	2013
Corporation for Public Broadcasting Grants	\$ 128,176	\$ 124,360	\$ 125,643
Other Operating Revenues	630,502	921,430	738,656
Operating Expenses	1,265,498	1,320,279	1,389,170
Operating Loss	<u>(506,820)</u>	<u>(274,489)</u>	<u>(524,871)</u>
Non-Operating Revenues	71,744	105,602	91,521
Operating Transfers from UALR	345,569	340,445	336,722
Net Non-Operating Revenues	<u>417,313</u>	<u>446,047</u>	<u>428,243</u>
Increase (Decrease) in Net Position	<u>(89,507)</u>	<u>171,558</u>	<u>(96,628)</u>
Net Position, Beginning of Year	903,049	731,491	828,119
Net Position, End of Year	<u>\$ 813,542</u>	<u>\$ 903,049</u>	<u>\$ 731,491</u>

Condensed Statements of Cash Flows

	2015	2014	2013
Net Cash Flows Used by Operating Activity	\$ (460,752)	\$ (421,950)	\$ (230,779)
Net Cash Flows Provided by Noncapital Financing Activities	405,510	400,966	395,548
Net Cash Flows used by Capital and Related Financing Activities	(30,000)	(27,641)	(24,547)
Net Cash Flows from Investing Activities	13,794	13,081	13,398
Net Increase (Decrease) in Cash	<u>(71,448)</u>	<u>(35,544)</u>	<u>153,620</u>
Cash and Cash Equivalents, Beginning of the Year	160,038	195,582	41,962
Cash and Cash Equivalents, End of Year	<u>\$ 88,590</u>	<u>\$ 163,038</u>	<u>\$ 195,582</u>

Current Assets consist primarily of cash and cash equivalents, investments, accounts receivable and prepaid expenses. Non-Current Assets consist primarily of property and equipment and beneficial interest in endowment fund. Property and equipment are presented net of accumulated depreciation. Current Liabilities consist of accounts payable, accrued expenses, and deferred revenues.

Operating Revenues consist primarily of CPB grant revenues, program underwriting and contributed support. Operating expenses consist primarily of broadcasting, programming and production, management and general, fundraising and membership development expenses, and depreciation. Non-Operating Revenues consist primarily of other grants and investment income.

University of Arkansas at Little Rock provided financial support in the form of direct and indirect expenses totaling \$345,569, \$340,445, and \$336,722 at June 30, 2015, 2014, and 2013, respectively.

Request for Information

This financial report is designed to provide donors, members, investment managers, foundations, and taxpayers with a general overview of the KLRE-FM/KUAR-FM's finances and to account for the funding it receives. It is also intended to help the reader better understand the changes in the financial statement format. Additional details can be requested by mail at the following address:

KLRE-FM/KUAR-FM
2801 South University
Little Rock, AR 72204

KLRE-FM/KUAR-FM
Statement of Net Position
June 30, 2015 and 2014
(See independent auditor's report.)

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	<u>Assets</u>	
	2015	2014
Current Assets		
Cash and cash equivalents	\$ 88,590	\$ 160,038
Accounts receivable, net of allowance of \$4,313 and \$7,176 for June 30, 2015 and 2014, respectively	38,661	46,518
Prepaid expenses	1,939	10,713
Total Current Assets	129,190	217,269
Noncurrent assets		
Endowment fund	326,659	328,650
Capital assets, net	535,419	586,448
Total Noncurrent Assets	862,078	915,098
Total Assets	\$ 991,268	\$ 1,132,367

Liabilities and Net Position

Current Liabilities		
Accounts payable	\$ 104,676	\$ 132,505
Deferred revenue	18,050	11,813
Current portion of long-term debt	55,000	50,000
Total Current Liabilities	177,726	194,318
Long-Term Debt, Less Current Portion	-	35,000
Net Position		
Invested in capital assets	535,419	586,448
Restricted for endowment	250,000	250,000
Unrestricted net position	28,123	66,601
Total Net Position	813,542	903,049
Total Liabilities and Net Position	\$ 991,268	\$ 1,132,367

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



KLRE-FM/KUAR-FM
Statement of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30, 2015 and 2014
(See independent auditor's report.)

	2015	2014
Operating Revenues		
Program underwriting	\$ 212,072	\$ 264,260
Contributions raised by Friends	418,430	657,170
The Corporation for Public Broadcasting Grants	128,176	124,360
Total Operating Revenues	758,678	1,045,790
Operating Expenses		
Programming and production	715,635	679,776
Broadcasting	141,531	138,267
Program information and promotion	9,564	7,872
General administration	304,643	360,531
Fund-raising and membership development	94,125	133,833
Total Operating Expenses	1,265,498	1,320,279
Operating Loss	(506,820)	(274,489)
Non-Operating Revenues (Expenses)		
University of Arkansas for Medical Sciences	54,000	54,000
Interest income	3,361	3,459
Change in fair value of endowment fund	(1,991)	32,000
Endowment earnings	10,433	9,622
Other revenue	5,941	6,521
Total Non-Operating Revenues (Expenses)	71,744	105,602
Loss Before Operating Transfers	(435,076)	(168,887)
Operating transfers from the University of Arkansas at Little Rock	345,569	340,445
Change in Net Position	(89,507)	171,558
Net Position - beginning of year	903,049	731,491
Net Position - End of Year	\$ 813,542	\$ 903,049

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

KLRE-FM/KUAR-FM
Statement of Cash Flows
For the Years Ended June 30, 2015 and 2014
(See independent auditor's report.)

	2015	2014
Cash Flows from Operating Activities:		
Cash received from:		
Program underwriting receipts	\$ 226,166	\$ 299,374
Contributions raised by Friends	418,430	657,170
The Corporation for Public Broadcasting Grants	128,176	124,360
Cash payments for:		
Payments for programming and production	(671,354)	(637,749)
Payments for broadcasting	(135,227)	(132,658)
Payments for program information and promotion	(9,564)	(7,872)
Payments to suppliers and employees	(323,698)	(591,136)
Payments for fundraising and membership development	(93,681)	(133,439)
Net Cash Required by Operating Activities	(460,752)	(421,950)
Cash Flow from Noncapital Financing Activities:		
Gifts and grants for other than capital purchases	54,000	54,000
Transfer from the University of Arkansas at Little Rock	345,569	340,445
Other receipts	5,941	6,521
Net Cash Provided by Noncapital Financing Activities	405,510	400,966
Cash Flow from Capital and Related Financing Activities:		
Purchase of capital assets	-	(27,641)
Payments on long-term debt	(30,000)	-
Net Cash Required by Capital and Related Financing Activities	(30,000)	(27,641)
Cash Flows from Investing Activities:		
Investment income	13,794	13,081
Net Cash Provided by Investing Activities	13,794	13,081
Increase (Decrease) in Cash and Cash Equivalents	(71,448)	(35,544)
Cash and cash equivalents - beginning of year	160,038	195,582
Cash and Cash Equivalents - End of year	\$ 88,590	\$ 160,038

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

Reconciliation of Operating Loss to Net Cash**Required by Operating Activities:**

Operating loss	\$ (506,820)	\$ (274,489)
Adjustments to reconcile operating loss to net cash required by operating activities:		
Depreciation	51,029	48,030
(Increase) decrease in assets:		
Accounts receivable	7,857	30,421
Prepaid expenses	8,774	(6,212)
Increase (decrease) in liabilities:		
Accounts payable	(27,829)	(224,393)
Deferred revenue	6,237	4,693
Net Cash Provided (Required) by Operating Activities	<u>\$ (460,752)</u>	<u>\$ (421,950)</u>

Supplemental Non-Cash Disclosures:

Accounts payables satisfied through issuance of long-term deb	<u>\$ -</u>	<u>\$ 85,000</u>
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KLRE-FM/KUAR-FM
Notes to Financial Statements
June 30, 2015 and 2014

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1. **Summary of Significant Accounting Policies**

Nature of Operations

KLRE-FM/KUAR-FM (“KLRE/KUAR”), a department of the University of Arkansas at Little Rock (“UALR”), is comprised of two licensed public telecommunications radio stations. UALR is both the licensee and operator of the radio stations. KLRE/KUAR presents national public radio news and classical jazz music and is dedicated to bringing fine arts programming to listeners throughout the central part of Arkansas.

In accordance with UALR’s policies, certain cash, pledge and investment accounts of KLRE/KUAR are held and administered by the University of Arkansas Foundation, Inc. (“UAF”), a legally separate nonprofit entity. The UAF administers and invests gifts and other amounts received directly or indirectly as a result of fund-raising activities of various units of UALR and other affiliated entities related to UALR. Accounts held at the UAF for the benefit of KLRE/KUAR are included in these financial statements.

Principles of Operations

KLRE/KUAR has adopted Government Accounting Standards Board (“GASB”) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which incorporates Financial Accounting Standards Board (“FASB”) pronouncements and Accounting Principles Board (“APB”) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. Although a significant amount of KLRE/KUAR’s resources are derived from general contributions and support from the Corporation for Public Broadcasting Radio Community (“CPB”) and UALR, its accounting policy is to prepare its financial statements as a business type activity, rather than as a governmental fund type, since the CPB prefers the recipients of its funds to utilize this basis for financial statement presentation. Accordingly, KLRE/KUAR utilizes the economic resources measurement focus and the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable.

Operating revenues and expenses are distinguished from other revenues (expenses) items. Operating revenues and expenses generally result from providing services in connection with the principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues (expenses), but remain a major component of the overall revenues and expenses of KLRE/KUAR.

Cash and Cash Equivalents

For purposes of the statement of cash flows, KLRE/KUAR considers all highly liquid cash investments with a maturity of three months or less to be cash equivalents. For financial statement purposes, funds are held by UALR and the UAF on behalf of KLRE/KUAR.

KLRE-FM/KUAR-FM
Notes to Financial Statements
June 30, 2015 and 2014

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1. **Summary of Significant Accounting Policies (continued)**

Accounts Receivable

KLRE/KUAR utilizes the allowance method of accounting for uncollectible accounts receivable. Amounts are written off at the point when collection attempts have been exhausted, which is based on individual credit evaluation and specific circumstances of the donor. Management uses significant judgment in estimating uncollectible amounts. In estimating uncollectible amounts, management considers factors such as current overall economic conditions, industry-specific economic conditions, historical donor performance and anticipated donor performance. While management believes KLRE/KUAR's processes effectively address its exposure to doubtful accounts, changes in economic, industry or specific donor conditions may require adjustment to the allowance recorded by KLRE/KUAR. At June 30, 2015 and 2014 management had recorded an allowance for doubtful accounts of \$4,313 and \$7,176, respectively.

Capital Assets

All property, plant and equipment is valued at cost. Except for donated equipment which is capitalized at the fair market value at the date of donation. Maintenance and repair costs are charged to expense as incurred. Depreciation is computed on the straight-line method for financial reporting purposes, based on the estimated useful lives of the assets which range from 3 to 30 years. Interest costs are capitalized when incurred on debt where proceeds were used to finance the construction of assets. KLRE/KUAR capitalizes all purchases over \$2,500 and a useful life over one year.

Investments

Investments consist of marketable securities at the UAF and are presented on the Statements of Net Position at fair market value based on quoted market prices as of June 30, 2015 and 2014. Any concentration of credit risk from investments is expected to be insignificant.

Deferred revenue

Deferred revenue represents payments for program underwriting received in advance of the program broadcast.

Contributions

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and unrestricted net position. Gifts received with a donor stipulated time restriction are reported in restricted net position. When the donor stipulated time restriction ends, the contributions are reclassified to unrestricted net position.

KLRE-FM/KUAR-FM
Notes to Financial Statements
June 30, 2015 and 2014

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1. **Summary of Significant Accounting Policies (continued)**

Functional Allocation of Expenses

The costs of providing the various program services and other 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 services on the basis of benefits received and based upon management's best estimate.

Donated Facilities and Services

UALR provides the use of certain office and studio space to KLRE/KUAR. The value of such use is recorded based upon the estimated fair market value of the facility usage during the period of occupancy. In addition, administrative support is received from UALR which consists of allocated financial department costs and other expenses incurred on behalf of KLRE/KUAR. All such support from UALR is recorded as an operating transfer.

Tax Status

KLRE/KUAR is considered a political subdivision of UALR and, therefore, is exempt from income taxes.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Use of Restricted Funds

When both restricted and unrestricted resources are available for use, it is KLRE/KUAR's policy to use restricted resources first, then unrestricted resources as they are needed.

Subsequent Events

Management has evaluated subsequent events through December 17, 2015, which represents the date the financial statements were available to be issued.

KLRE-FM/KUAR-FM
Notes to Financial Statements
June 30, 2015 and 2014

2. **Deposits**

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. KLRE/KUAR's funds are held by UALR and the UAF. UALR accounts are insured by the Federal Deposit Insurance Corporation or collateral held by the Federal Reserve. The UAF accounts are also insured or collateralized. Any concentrations of credit risk are expected to be insignificant.

3. **Agreement to Provide Operations**

UALR entered into an agreement to provide for licensing and operation of KLRE/KUAR. Under this agreement, UALR is to provide general appropriations support and other direct and indirect financial support. A summary of such support and other direct and indirect financial support is as follows:

	2015	2014
General appropriations	\$ 242,877	\$ 227,903
Utilities, in-kind	16,729	20,821
Facilities use and administrative support, in-kind	85,963	91,721
	\$ 345,569	\$ 340,445

4. **Capital Assets**

Property, plant and equipment consists of the following as of June 30, 2015:

	2014	Additions	Transfers	Disposals	2015
Equipment rights	\$ 332,689	-	-	-	\$ 332,689
Radio tower and antenna	575,756	-	-	-	575,756
Other broadcast equipment	232,401	-	-	-	232,401
Building improvements	105,897	-	-	-	105,897
Office furniture and equipment	51,377	-	-	-	51,377
	1,298,120	-	-	-	1,298,120
Less accumulated depreciation	(711,672)	(51,029)	-	-	(762,701)
	\$ 586,448	(51,029)	-	-	\$ 535,419

KLRE-FM/KUAR-FM
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4. Capital Assets (continued)

Property, plant and equipment consists of the following as of June 30, 2014:

	2013	Additions	Transfers	Disposals	2014
Equipment rights	\$ 332,689	-	-	-	\$ 332,689
Radio tower and antenna	575,756	-	-	-	575,756
Other broadcast equipment	217,815	14,586	-	-	232,401
Building improvements	105,897	-	-	-	105,897
Office furniture and equipment	38,322	13,055	-	-	51,377
	<u>1,270,479</u>	<u>27,641</u>	<u>-</u>	<u>-</u>	<u>1,298,120</u>
Less accumulated depreciation	(663,642)	(48,030)	-	-	(711,672)
	<u>\$ 606,837</u>	<u>(20,389)</u>	<u>-</u>	<u>-</u>	<u>\$ 586,448</u>

5. Net Position

Permanently Restricted Net Position

Support of \$250,000 was contributed to a permanently restricted endowment at the UAF on behalf of KLRE/KUAR during the year ended June 30, 2003. It is the donor's intent that this endowment fund shall be permanent and that only the net income appropriated for expenditures may be used for general operating support of KLRE/KUAR. The funds are invested in an external investment pool at the UAF. The University issues a separate report for this external investment pool, it can be obtained by contacting the University of Arkansas System, 2404 North University Avenue, Little Rock, AR 72207.

6. Personnel Expenses

All personnel working at KLRE/KUAR are employees of UALR, and thus are eligible for retirement or other benefits provided by UALR. KLRE/KUAR reimburses UALR for all wages and benefits related to the operations of KLRE/KUAR.

7. Long-Term Debt

KLRE/KUAR entered into a note payable agreement in June 2014 with the University. The note is non-interest bearing and is to be repaid from station underwriting, transfers from the Ledbetter Spendable account and transfers from the Friends of KLRE/KUAR account to be paid by the end of fiscal year in 2016.

The radio station's long-term debt consisted of the following, at June 30:

	2015	2014
Note payable to UALR, due June 2016, secured by future revenues	\$ 55,000	\$ 85,000
Less current portion	(55,000)	(50,000)
Long-term debt	<u>\$ -</u>	<u>\$ 35,000</u>

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Audit and Fiscal Responsibility Committee Chair
University of Arkansas System
2404 N. University Avenue
Little Rock, AR 72207

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of KLRE-FM/KUAR-FM ("KLRE/KUAR"), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise KLRE/KUAR's basic financial statements, and have issued our report thereon dated December 17, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered KLRE/KUAR's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of KLRE/KUAR's internal control. Accordingly, we do not express an opinion on the effectiveness of KLRE/KUAR's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether KLRE/KUAR's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

December 17, 2015

EGP, PLLC
Certified Public Accountants and Consultants

EGP