



Basic Financial Statements  
June 30, 2021 and 2020

**KNAU Radio**

**(A Public Telecommunications Entity of  
Northern Arizona University)**

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## Independent Auditor's Report

To the Management of  
KNAU Radio (A Public Telecommunications Entity of Northern Arizona University)  
Flagstaff, Arizona

### Report on the Financial Statements

We have audited the accompanying financial statements of KNAU Radio (A Public Telecommunications Entity of Northern Arizona University) (KNAU), as of and for the years ended June 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise KNAU'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 audits. We conducted our audits 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 KNAU'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 KNAU'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 KNAU as of June 30, 2021 and 2020, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

As discussed in Note 1, the financial statements of KNAU are intended to present the financial position, the changes in financial position and cash flows, of only that portion of the financial information of Northern Arizona University that are attributable to the transactions of KNAU. They do not purport to, and do not, present fairly the financial position of Northern Arizona University at June 30, 2021 and 2020, and the changes in its financial position and its cash flows, where applicable, for the years then ended in conformity with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

### **Other Matters**

#### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 and the schedule of the proportionate share of net pension liability and defined benefit plan contributions on pages 23 and 24 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 a report dated January 7, 2022 on our consideration of KNAU's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely 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 the effectiveness of KNAU's 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 KNAU's internal control over financial reporting and compliance.



Phoenix, Arizona  
January 7, 2022

## Introduction

The following Management's Discussion and Analysis ("MD&A") provides an overview of the financial position and activities of KNAU Radio (A Public Telecommunications Entity of Northern Arizona University) ("KNAU"), a department of Northern Arizona University ("NAU") and is designed to assist in the understanding of the accompanying financial statements as of and for the year ended June 30, 2021. 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.

KNAU is located on the campus of Northern Arizona University. KNAU broadcasts National Public Radio, American Public Media, Public Radio International and local programs that inform, enrich and entertain the public. KNAU serves listeners with comprehensive music and information programs that reflect current affairs, history and cultures.

These financial statements were prepared in accordance with reporting guidelines of the Corporation for Public Broadcasting and Governmental Accounting Standards Board ("GASB") principles. The financial statements prepared in accordance with GASB principles establish standards for external financial reporting and provide a perspective on KNAU's assets, liabilities, net position, revenues, expenses and cash flows.

The Statements of Net Position present the financial position of KNAU at the end of the fiscal years 2021 and 2020 and include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources of KNAU. Assets are what KNAU owns and are generally measured at the current value, except for capital assets which include property and equipment recorded at historical cost less accumulated depreciation. Assets are categorized as either current or non-current. Current assets are generally considered to be convertible to cash within one year. Current liabilities are obligations that will be paid within one year of the statement date. The difference between total assets, deferred outflows of resources, total liabilities, and deferred inflows of resources, referred to as net position, is one indicator of the financial condition of KNAU.

## Assets and Deferred Outflows of Resources

Total assets and deferred outflows of resources of KNAU were \$4,872,915 and \$3,699,779 at June 30, 2021 and 2020, respectively. Unrestricted cash was \$882,000 and \$698,661 or 18% and 19% of total assets at June 30, 2021 and 2020, respectively. Reinvestment of earnings increased the investments balance by \$933,670. Accounts receivable, net, was \$342,088 and \$395,897 at June 30, 2021 and 2020. In 2021, capital assets increased by \$47,798 from \$218,908 to \$266,706 due to the purchase of a new transmitter. GASB 68 and 71 was implemented during 2015 resulting in Deferred Outflows of Resources of \$164,372 and \$105,049 at June 30, 2021 and 2020, respectively.

## Liabilities and Deferred Inflows of Resources

Total liabilities and deferred inflows of resources of KNAU were \$1,045,161 and \$947,522 at June 30, 2021 and 2020, respectively. Accrued vacation was \$83,223 and \$64,211 at June 30, 2021 and 2020, respectively. Unearned revenue of \$14,854 at June 30, 2021 decreased by \$2,638. GASB 68 and 71 was implemented during 2015 resulting in Deferred Inflows of Resources of \$22,235 and \$51,838 at June 30, 2021 and 2020, respectively.

### Net Position

Net position is divided into three major categories. The first category, net investment in capital assets, reports KNAU's net equity in property, plant and equipment. The second major category, restricted net position, reports net assets that are owned by KNAU, but the use or purpose of the funds is restricted by an external source or entity. The expendable restricted net position may be expended by KNAU but must be spent only for the purpose as determined by the donor or external entity. The third category is unrestricted.

#### Condensed Statements of Net Position Fiscal Years 2021, 2020, and 2019

	2021	2020	2019
<b>Assets</b>			
Current assets	\$ 4,190,982	\$ 3,079,309	\$ 2,889,551
Noncurrent assets	517,561	515,421	128,955
<b>Total assets</b>	<u>4,708,543</u>	<u>3,594,730</u>	<u>3,018,506</u>
Deferred outflow of resources	164,372	105,049	135,069
<b>Total assets and deferred outflows of resources</b>	<u><u>\$ 4,872,915</u></u>	<u><u>\$ 3,699,779</u></u>	<u><u>\$ 3,153,575</u></u>
<b>Liabilities</b>			
Current liabilities	\$ 98,077	\$ 76,427	\$ 69,311
Net pension liability	924,849	819,257	804,426
<b>Total liabilities</b>	<u>1,022,926</u>	<u>895,684</u>	<u>873,737</u>
Deferred inflow of resources	22,235	51,838	95,103
<b>Total liabilities and deferred inflow of resources</b>	<u>1,045,161</u>	<u>947,522</u>	<u>968,840</u>
<b>Net Position</b>			
Net investment in capital assets	266,706	218,908	112,812
Unrestricted	3,561,048	2,533,349	2,071,923
<b>Total net position</b>	<u>3,827,754</u>	<u>2,752,257</u>	<u>2,184,735</u>
<b>Total liabilities and net position</b>	<u><u>\$ 4,872,915</u></u>	<u><u>\$ 3,699,779</u></u>	<u><u>\$ 3,153,575</u></u>

### Statements of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position, which is generally referred to as the activities statement, presents the total revenues (operating and non-operating) received and earned by KNAU and expenses (operating and non-operating) paid and owed by KNAU and income or loss from operations for the current fiscal year.

### Revenues

Total operating revenues of KNAU for the fiscal years 2021 and 2020 were \$2,248,060 and \$2,560,745, respectively. The decrease of \$312,685 or 12% from 2020 is due to decreased contributions.

Operating revenues from grants and contracts totaled \$477,054 and \$354,189 in fiscal year 2021 and 2020, respectively, an increase of \$122,865 or 35% and an increase of \$109,804 or 45%, respectively. Grant and contract revenues related to non-exchange type agreements are classified as operating revenue. In a non-exchange agreement, KNAU receives dollars from another party without directly giving a service or product of equal value in exchange.

KNAU received \$376,874 and \$449,581 in fiscal year 2021 and 2020, respectively, of NAU appropriations, an decrease of \$72,707 and an increase of \$2,838, respectively. In 2021 there was an increase in total institutional expenses allocated to KNAU. KNAU also received \$767,115 and \$1,226,237 in fiscal year 2021 and 2020 in subscriptions, memberships and gifts, a decrease of \$459,122 or 37% and an increase of \$530,976 or 76%, respectively. This decrease is due to typical fluctuation in sustaining member support year to year and decreased pledge drive gifts. Sustaining member support provides consistent, reliable, monthly income and pledge drives, which enables KNAU to budget effectively throughout the year.

Underwriting revenues in fiscal years 2021 and 2020 totaled \$582,888 and \$595,810, respectively, a decrease of \$12,922 or 2% and a decrease of \$8,439 or 1%, respectively. Because of the uncertainty of both the economic outlook and future federal funding, KNAU continues to make a conscientious effort to increase business support. KNAU also received \$418,586 in fiscal year 2021 and \$384,509 in fiscal year 2020 of donated facilities and administrative support from NAU, which is comprised of donated office and studio space and costs for institutional support and physical plant operations.

Investment gain in 2021 totaled \$933,670 which was an increase from fiscal year 2020 of \$34,678, or roughly 81%. The investment return for the NAU Foundation for 2021 was a gain of 0.34% compared to a gain of 1% in 2020. In fiscal year 2020, investment income increased \$926,030 or approximately 34%.

### Expenses

Total operating expenses of KNAU for the fiscal year were \$2,494,769 and \$2,469,894 for 2021 and 2020. There was a decrease in total operating expenses for fiscal year 2021 and 2020 of \$24,876 or 1% and a decrease of \$78,763 or 3%, respectively. Overall the decrease in 2021 was due to various fluctuations in donated facilities and administrative support from NAU as well as programming and production costs and salaries. Depreciation expense totaled \$55,287 and \$51,402 for fiscal year 2021 and 2020, respectively.

Condensed Statement of Revenues, Expenses, and Changes in Net Position  
Fiscal Years 2021, 2020, and 2019

	2021	2020	2019
Operating Revenues	\$ 2,245,643	\$ 2,560,745	\$ 2,003,726
Operating Expenses	2,492,352	2,469,893	2,548,656
Operating Loss	(246,709)	90,852	(544,930)
Nonoperating Revenues	1,322,206	476,670	515,522
Change in Net Position	1,075,497	567,522	(29,408)
Net Position, Beginning of Year	2,752,257	2,184,735	2,214,143
Net Position, End of Year	<u>\$ 3,827,754</u>	<u>\$ 2,752,257</u>	<u>\$ 2,184,735</u>

Capital and Debt Analysis

KNAU had \$266,706 and \$218,908 in capital assets, net of accumulated depreciation, at June 30, 2021 and 2020, respectively. Title to these assets resides with NAU, which allocated custody of the assets to KNAU for its operational needs. The change in capital assets for fiscal year 2021 is due to the addition of a transmitter. Additional information on KNAU's capital assets can be found in Note 1 to the accompanying financial statements.

KNAU does not separately issue long-term debt and is not currently engaged in any long-term financing.

Economic Factors That May Affect the Future

Overall, KNAU's financial position is relatively strong but the economic outlook for the station is dependent on various influences of its funding sources.

- Revenue from Northern Arizona University and the State of Arizona is uncertain.
- Membership and underwriting revenue are both increasing.
- Major gifts of amounts \$1,000 and above and planned giving efforts are increasing.
- Cash reserves provide short-term solutions to possible budget cuts.

KNAU is partially dependent on funding outside of its control, KNAU continues to work to strengthen controllable revenue opportunities and aggressively control costs. Some revenue risks involve funding from Northern Arizona University and the United States federal government. Revenues that are controllable and can be enhanced include membership and underwriting, major gifts over \$1,000, and planned or estate gifts. Furthermore, KNAU holds cash reserves to balance uneven timing from various revenue sources.



KNAU launched an aggressive planned giving campaign in fiscal year 2013 which is expected to show benefits in future years.

The station is focused on increasing private business funding and will continue working toward an annual increase in underwriting revenue.

KNAU continues to explore ways to continue providing excellent programming while controlling these costs.

Overall, the station remains financially health, as the net position increased by \$1,075,497, which can be attributed to large gifts during the year.

#### Request for Information

This financial report is designed to provide a general overview of KNAU's finances for KNAU management, and NAU. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to KNAU Arizona Public Radio, Attention General Manager, and P.O. Box 5764, Flagstaff, Arizona 86011.

KNAU Radio  
(A Public Telecommunications Entity of Northern Arizona University)  
Statements of Net Position  
June 30, 2021 and 2020

	2021	2020
Assets		
Current Assets		
Cash and cash equivalents	\$ 882,000	\$ 698,661
Investments	3,199,395	2,265,725
Accounts receivable, net	109,587	114,923
Total current assets	4,190,982	3,079,309
Accounts receivable, net of current portion	232,501	280,974
Asset Held Under Split Interest Agreement	18,354	15,539
Capital Assets, net	266,706	218,908
Total assets	4,708,543	3,594,730
Deferred Outflows of Resources		
Pension related deferred outflows - ASRS, net	164,372	105,049
Total assets and deferred outflows of resources	\$ 4,872,915	\$ 3,699,779
Liabilities		
Current Liabilities		
Accrued expenses	\$ 83,223	\$ 64,211
Advanced underwriting fees	14,854	12,216
Total current liabilities	98,077	76,427
Net Pension Liability - ASRS	924,849	819,257
Total liabilities	1,022,926	895,684
Deferred Inflows of Resources		
Pension related deferred inflows - ASRS	22,235	51,838
Net Position		
Net investment in capital assets	266,706	218,908
Unrestricted	3,561,048	2,533,349
Total net position	3,827,754	2,752,257
Total liabilities, deferred inflows of resources and net position	\$ 4,872,915	\$ 3,699,779

KNAU Radio  
(A Public Telecommunications Entity of Northern Arizona University)  
Statements of Cash Flows  
Years Ended June 30, 2021 and 2020

	2021	2020
Operating Activities		
Grants and contracts	\$ 477,054	\$ 354,189
Subscriptions, memberships and gifts	824,974	893,144
Underwriting	581,476	600,910
Payments to employees	(1,109,589)	(1,129,526)
Payments to suppliers	(873,212)	(892,347)
Net Cash used for Operating Activities	(99,297)	(173,630)
Noncapital Financing Activities		
General appropriations from Northern Arizona University	376,874	449,581
Change in split-interest agreement	(2,815)	604
Other income	11,662	19,449
Net Cash from Noncapital Financing Activities	385,721	469,634
Capital and Related Financing Activities		
Purchase of capital assets	(103,085)	(157,498)
Net Change in Cash and Cash Equivalents	183,339	138,506
Cash and Cash Equivalents, Beginning of Year	698,661	560,155
Cash and Cash Equivalents, End of Year	\$ 882,000	\$ 698,661
Reconciliation of Operating Income (Loss) to Net Cash used for Operating Activities		
Operating income (loss)	\$ (246,709)	\$ 90,852
Adjustments to reconcile operating loss to net cash used for operating activities		
Depreciation	55,287	51,402
Change in allowance for uncollectible promises to give	(669)	1,711
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:		
Accounts receivable, net	54,478	(326,297)
Accrued expenses	19,012	10,523
Net pension liability	105,592	14,831
Pensions related deferred outflows-ASRS	(59,323)	30,020
Pensions related deferred inflows-ASRS	(29,603)	(43,265)
Advanced underwriting fees	2,638	(3,407)
Net Cash used for Operating Activities	\$ (99,297)	\$ (173,630)

### Advanced Underwriting Fees

Advanced underwriting fees consist of advance payments from sponsors in the form of cash, for revenue to be recognized in the following year.

### Economic Dependence

KNAU is dependent upon funding from the Corporation for Public Broadcasting, NAU, underwriters, and contributors.

### Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net position.

### Subsequent Events

KNAU has evaluated subsequent events through January 7, 2022, the date which the financial statements were available to be issued.

## Note 2 - Accounts Receivable

Accounts receivable consisted of the following at June 30:

	2021	2020
Underwriting	\$ 59,591	\$ 55,541
Promises to give		
Within one year	52,123	62,178
In one to five years	232,501	280,974
Less allowance for doubtful accounts	(2,127)	(2,796)
	<u>\$ 342,088</u>	<u>\$ 395,897</u>

**Note 3 - Capital Assets**

Capital assets consisted of the following at June 30, 2021:

	July 1, 2020	Additions	Disposals	June 30, 2021
Capital assets being depreciated				
Broadcast and programming equipment	\$ 1,106,854	\$ 102,277	\$ (13,431)	\$ 1,195,700
Computers and office equipment	53,591	808	-	54,399
Vehicles	26,334	-	-	26,334
Leasehold improvements	272,830	-	-	272,830
Total cost	<u>1,459,609</u>	<u>103,085</u>	<u>(13,431)</u>	<u>1,549,263</u>
Less accumulated depreciation				
Broadcast and programming equipment	(905,719)	(51,228)	13,431	(943,516)
Computers and office equipment	(49,925)	(2,735)	-	(52,660)
Vehicles	(26,334)	(1,324)	-	(27,658)
Leasehold improvements	(258,723)	-	-	(258,723)
Total accumulated depreciation	<u>(1,240,701)</u>	<u>(55,287)</u>	<u>13,431</u>	<u>(1,282,557)</u>
Net capital assets	<u>\$ 218,908</u>	<u>\$ 47,798</u>	<u>\$ -</u>	<u>\$ 266,706</u>

Capital assets consisted of the following at June 30, 2020:

	July 1, 2019	Additions	Disposals	June 30, 2020
Capital assets being depreciated				
Broadcast and programming equipment	\$ 951,249	\$ 155,605	\$ -	\$ 1,106,854
Computers and office equipment	51,698	1,893	-	53,591
Vehicles	26,334	-	-	26,334
Leasehold improvements	272,830	-	-	272,830
Total cost	<u>1,302,111</u>	<u>157,498</u>	<u>-</u>	<u>1,459,609</u>
Less accumulated depreciation				
Broadcast and programming equipment	(861,451)	(44,268)	-	(905,719)
Computers and office equipment	(45,526)	(4,399)	-	(49,925)
Vehicles	(26,334)	-	-	(26,334)
Leasehold improvements	(255,988)	(2,735)	-	(258,723)
Total accumulated depreciation	<u>(1,189,299)</u>	<u>(51,402)</u>	<u>-</u>	<u>(1,240,701)</u>
Net capital assets	<u>\$ 112,812</u>	<u>\$ 106,096</u>	<u>\$ -</u>	<u>\$ 218,908</u>

Depreciation expense was \$55,287 and \$51,402 for the years ended June 30, 2021 and 2020, respectively.

#### Note 4 - Uniform Prudent Management and Investment of Funds

Unrestricted net position includes an unrestricted quasi-endowment in accordance with generally accepted accounting principles. Funds are invested and may be drawn down at the discretion of management and are not committed for a specific purpose. Detailed quasi-endowment activity for the years ended June 30, 2021 and 2020, respectively, is as follows:

	2021	2020
Beginning balance - quasi-endowment	\$ 2,265,725	\$ 2,258,085
Interest and dividend income	98,732	88,153
Unrealized gains (losses)	834,938	(80,513)
Net investment income	933,670	7,640
Ending balance - quasi - endowment	\$ 3,199,395	\$ 2,265,725

The quasi-endowment is measured at fair value of \$3,199,395 and \$2,265,725 as of June 30, 2021 and 2020, respectively. The related fair values of these funds are determined by other observable inputs, which are considered to be Level 2 investments.

Funds held in the quasi-endowment are part of a pool of funds held by the Foundation on behalf of KNAU. The Foundation is not rated by the nationally recognized statistical rating organizations. The pool of funds is invested primarily in equity and fixed income mutual funds and money market funds. KNAU has no regulatory oversight for the pool, which is governed by the Foundation's management, board of directors and its designated subcommittees. The Foundation is audited annually by an independent certified public accounting firm.

#### Note 5 - Donated Facilities and Administrative Support

Donated facilities and administrative support from NAU totaled \$418,586 and \$384,509 for the years ended June 30, 2021 and 2020, respectively, and is comprised of donated office and studio space and costs for institutional support and physical plant operations. These costs are allocated financial costs incurred by NAU on behalf of KNAU.

#### Note 6 - Retirement Plans

KNAU employees participate in the Arizona State Retirement System (ASRS) or one of two defined contribution plans which are described below. The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. The report is available on its website at [www.azasrs.gov](http://www.azasrs.gov). KNAU'S net pension liability at June 30, 2021 and 2020 was \$924,849 and \$819,257, respectively.

## Defined Benefit Plan

### Plan Description

The ASRS administers a cost-sharing multiple-employer defined benefit pension plan, a cost-sharing multiple-employer defined benefit health insurance premium benefit (Other Postemployment Benefits) (OPEB) plan, and a cost-sharing multiple-employer defined benefit long-term disability (OPEB) plan. All full benefit eligible classified staff must participate in these plans. University faculty, academic professionals, and administrative officers have the option to participate in these plans or defined contribution plans described later. The Arizona State Retirement System Board governs the ASRS according to the provisions of A.R.S. Title 38, Chapter 5, Articles 2 and 2.1. The ASRS is a component unit of the State of Arizona.

### Benefits Provided

The ASRS provides retirement, health insurance premium supplement, long-term disability, and survivor benefits. State statute establishes benefits terms. Retirement benefits are calculated on the basis of age, average monthly compensation, and service credit as follows:

	Initial Membership Date	
	Before July 1, 2011	On or after July 1, 2011
Years of service and age required to receive benefit	Sum of years and age equal 80 10 years; age 62 5 years; age 50* Any years; age 65	30 years; age 55 25 years; age 60 10 years; age 62 5 years; age 50* Any years; age 65
Final average salary is based on	Highest 36 consecutive months of last 120 months	Highest 60 consecutive months of last 120 months
Benefit % per year of service	2.1% to 2.3%	2.1% to 2.3%

\*With actuarially reduced benefits

Retirement benefits for members who joined the ASRS prior to September 13, 2013, are subject to automatic cost-of-living adjustments based on excess investment earning. Members with a membership date on or after September 13, 2013, are not eligible for cost-of-living adjustments. Survivor benefits are payable upon a member's death. For retired members, the survivor benefit is determined by the retirement benefit option chosen. For all other members, the beneficiary is entitled to the member's account balance that includes the member's contributions and employer's contributions, plus interest earned.

### Contributions

In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2021, active ASRS members were required by statute to contribute at the actuarially determined rate of 12.11% (11.94% for retirement, 0% for health insurance premium benefit, and 0.17% for long-term disability) of the members' annual covered payroll, and KNAU was required by statute to contribute at the actuarially determined rate of 12.11% (11.45% for retirement, 0.49% for health insurance premium benefit, and 0.17% for long-term disability) of the active members' annual covered payroll. KNAU's contributions to the pension plan for the years ended June 30, 2021 and 2020, were \$66,802 and \$66,385, respectively.

### Pension Liability

At June 30, 2021 and 2020, KNAU reported a liability for its proportionate share of the ASRS's net pension liability of \$924,849 and \$819,257, respectively. The net pension liability was measured as of June 30, 2020 and June 30, 2019, respectively. For 2021, the total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2019 and 2018, to the measurement date of June 30, 2020 and 2019. KNAU's proportion of the net pension liability was based on KNAU's actual contributions to the plan relative to the total of all participating employers' contributions for the year ended June 30, 2020. KNAU's proportion measured as of June 30, 2020 and 2019 and 2018, was 0.48% and 0.48% and 0.49%, respectively.

### Pension Expense and Deferred Outflows/Inflows of Resources

For the years ended June 30, 2021 and 2020, KNAU recognized pension expense for ASRS of \$83,468 and \$67,971, respectively. KNAU reported deferred outflows and deferred inflows of resources related to pensions from the following sources at June 30, 2021:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 8,367	\$ -
Changes in assumptions	-	-
Difference between projected and actual investment earnings	89,203	-
Changes in proportion and differences between KNAU contributions and proportionate share of contributions	-	22,235
KNAU contributions subsequent to the measurement date	66,802	-
	<u>\$ 164,372</u>	<u>\$ 22,235</u>



KNAU Radio  
(A Public Telecommunications Entity of Northern Arizona University)

Notes to Financial Statements  
June 30, 2021 and 2020

KNAU reported deferred outflows and deferred inflows of resources related to pensions from the following sources at June 30, 2020:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 14,800	\$ 154
Changes in assumptions	3,463	32,625
Difference between projected and actual investment earnings	-	18,414
Changes in proportion and differences between KNAU contributions and proportionate share of contributions	20,401	645
KNAU contributions subsequent to the measurement date	66,385	-
	<u>\$ 105,049</u>	<u>\$ 51,838</u>

The \$66,802 and \$66,385 as of June 30, 2021 and 2020, respectively, reported as deferred outflows of resources related to ASRS pensions resulting from KNAU contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pensions will be recognized in pension expense as follows:

Year Ending June 30	Amount
2022	\$ 16,964
2023	32,266
2024	26,105
Total	<u>\$ 75,335</u>

#### Actuarial Assumptions

The significant actuarial assumptions used to measure the total pension liability are as follows:

	June 30, 2021	June 30, 2020
Actuarial valuation date	June 30, 2019	June 30, 2018
Actuarial roll forward date	June 30, 2020	June 30, 2019
Actuarial cost method	Entry age normal	Entry age normal
Discount rate	7.5%	7.5%
Projected salary increases	2.7% - 7.2%	2.7% - 7.2%
Inflation	2.3%	2.3%
Permanent benefit increase	Included	Included
Mortality rates	2017 SRA Scale U-MP	2017 SRA Scale U-MP

Actuarial assumptions used in the June 30, 2020 valuation were determined by an actuarial valuation as of June 30, 2019, and rolled forward using generally accepted actuarial procedures to June 30, 2020. Actuarial assumptions used in the June 30, 2019 valuation were determined by an actuarial valuation as of June 30, 2018, and rolled forward using generally accepted actuarial procedures to June 30, 2019.

The long-term expected rate of return on ASRS pension plan investments was determined to be 5.48% and 5.45% as of June 30, 2021 and 2020, respectively, using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class for the June 30, 2020 measurement date are summarized in the following table:

June 30, 2021	Target Allocation	Long-Term Expected Real Rate of Return
Asset Class		
Equity	50%	3.20%
Credit	20%	1.09%
Interest Rate Sensitive Bonds	10%	0.02%
Real estate	20%	1.17%
Total	100%	5.48%

The target allocation and best estimates of arithmetic real rates of return for each major asset class for the June 30, 2019 measurement date are summarized in the following table:

June 30, 2020	Target Allocation	Long-Term Expected Real Rate of Return
Asset Class		
Equity	50%	3.05%
Credit	20%	1.07%
Interest Rate Sensitive Bonds	10%	0.16%
Real estate	20%	1.17%
Total	100%	5.45%

**Discount Rate** – The discount rate used to measure the ASRS total pension liability was 7.5%, which is more than the long-term expected rate of return of 5.45%. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board’s funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Sensitivity of KNAU's Proportionate Share of the ASRS Net Pension Liability to Changes in the Discount Rate –**  
The following table presents KNAU's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what KNAU's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.5%) or 1 percentage point higher (8.5%) than the current rate:

June 30, 2021	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
KNAU's proportionate share of the net pension liability	\$ 1,264,720	\$ 924,850	\$ 640,736

  

June 30, 2021	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
KNAU's proportionate share of the net pension liability	\$ 1,264,720	\$ 924,850	\$ 640,736

#### **Note 7 - Leases**

KNAU has entered into non-cancelable lease agreements for towers used to transmit KNAU's programs. In addition, KNAU has various cancelable and month-to-month leases. For the years ended June 30, 2021 and 2020, rent expense was \$61,444 and \$56,752, respectively. The future minimum lease payments under all non-cancelable agreements are as follows:

Fiscal Year Ended June 30	Amount
2022	\$ 12,949
Total future minimum lease payments	\$ 12,949

#### **Note 8 - Related Party Transactions**

In exchange for administrative services, KNAU pays a donation management fee equal to 5% of all donations to the Foundation, a non-profit corporation under Section 501(c)(3) of the internal revenue code, and a related party in accordance with generally accepted accounting principles. Foundation gift fees paid for the years ended June 30, 2021 and 2020 were \$40,284 and \$43,089, respectively.



Required Supplementary Information  
June 30, 2021 and 2020

**KNAU Radio**

**(A Public Telecommunications Entity of  
Northern Arizona University)**

KNAU Radio  
(A Public Telecommunications Entity of Northern Arizona University)  
Schedule of Proportionate Share of Net Pension Liability  
June 30, 2021

	Reporting Fiscal Year (Measurement Date)					
	2021 (2020)	2020 (2019)	2019 (2018)	2018 (2017)	2017 (2016)	* 2016 (2015)
Proportion of the Plan's net pension liability	0.0048%	0.0048%	0.0049%	0.0051%	0.0047%	0.0045%
Proportionate share of the net pension liability	\$ 924,849	\$ 819,257	\$ 804,426	\$ 911,999	\$ 732,987	\$ 726,464
Covered payroll	616,002	552,020	554,295	546,345	442,337	421,947
Proportionate share of the net pension liability as a percentage of the covered payroll	150.14%	148.41%	145.13%	166.93%	165.71%	172.17%
Plan fiduciary net position as a percentage of the total pension liability	69.33%	73.24%	73.00%	69.92%	67.06%	68.35%

\*FY 2015 was the first year of implementation. GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, KNAU will present information for those years for which information is available.

KNAU Radio  
(A Public Telecommunications Entity of Northern Arizona University)  
Schedule of Defined Benefit Plan Contributions  
June 30, 2021

	Reporting Fiscal Year (Measurement Date)					*
	2021 (2020)	2020 (2019)	2019 (2018)	2018 (2017)	2017 (2016)	2016 (2015)
Statutorily required contribution	\$ 66,802	\$ 66,385	\$ 62,492	\$ 62,492	\$ 61,557	\$ 46,134
Contributions in relation to the statutorily required contribution	66,802	66,385	62,492	62,492	61,557	46,134
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 589,004	\$ 616,002	\$ 552,020	\$ 554,295	\$ 546,345	\$ 442,337
Contributions as a percentage of covered payroll	11.34%	10.78%	11.32%	11.27%	11.27%	10.43%

\*FY 2015 was the first year of implementation. GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, KNAU will present information for those years for which information is available.



Government Auditing Standards Report  
June 30, 2021

**KNAU Radio**

**(A Public Telecommunications Entity of  
Northern Arizona University)**



**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***

To Management of  
KNAU Radio (A Public Telecommunications Entity of Northern Arizona University)  
Flagstaff, Arizona

We have audited, 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, the financial statements of KNAU Radio (A Public Telecommunications Entity of Northern Arizona University) ("KNAU") as of and for the year then ended June 30, 2021, and the related notes to the financial statements, which collectively comprise KNAU's basic financial statements, and have issued our report thereon dated January 7, 2022.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered KNAU's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of KNAU's internal control. Accordingly, we do not express an opinion on the effectiveness of KNAU'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 KNAU'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 financial statements. 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 KNAU's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering KNAU's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Phoenix, Arizona  
January 7, 2022