

KUAF-FM
FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013
(With Independent Auditor's Report Thereon)

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Independent Auditor's Report

Board of Trustees
KUAF-FM
Fayetteville, Arkansas

We have audited the accompanying financial statements of KUAF-FM as of and for the year ended June 30, 2014 and 2013, 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, 2014 and 2013, 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

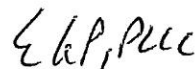
As discussed in Note 1, the financial statements present only KUAF-FM and do not purport to, and do not, present fairly the financial position of the University of Arkansas at Fayetteville, Arkansas, as of June 30, 2014 and 2013, the changes in its financial position, or, where applicable, its cash flows 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 17, 2014, 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.



December 17, 2014

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, 2014 and 2013

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, 2014 and 2013. 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 55,000 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. A 2004 study by the Corporation for Public Broadcasting listed KUAF in the Top 10% of all public stations in terms of financial security and audience service. Spring 2010 Arbitron national survey shows KUAF as the #27 public radio station in the U.S. out of over 700 NPR stations in market share. Also, the loyalty of the audience is much greater than the average public radio station.

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.

Statement 34 requires the classification of net assets into three categories—invested in capital assets, net of related debt; restricted; and unrestricted. The Statement of Position includes Assets, Liabilities and Net Assets of KUAF as of June 30, 2014 and 2013. This statement is classified into Current and Non-Current Assets and Liabilities, with Net Assets 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 Assets. 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, 2014 and 2013

Financial Highlights

The financial position of KUAF at June 30, 2014 remains very strong. Net assets totaled \$2,440,444 for the year ended June 30, 2014, compared to \$2,553,704 for the year ended June 30, 2013. KUAF's Net Assets decreased by \$113,260 in FY 2014 over fiscal year 2013.

KUAF's Operating Revenues were up in FY 2014 compared to last year. Operating Revenues totaled \$881,515 in FY 2014 compared to \$878,951 in FY 2013, an increase of \$2,564. This increase occurred in spite of a drop in federal funding of \$59,713 due to funding cuts in our annual grant from the Corporation for Public Broadcasting. Funding from CPB dropped because KUAF no longer is considered a "Rural Station" by CPB. The population growth in northwest Arkansas has resulted in a loss of a special grant from CPB for stations operating in rural areas of the country. Operating Expenses for FY 2014 were \$1,399,119 compared to FY 2013 expenses which were \$1,572,126. 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 \$393,550 (\$99,241 is noncash Indirect Overhead) added to Non-Operating Income (Expense) of \$10,794 and Operating Revenue of \$881,515 for the year creates a total of \$1,285,859, a deficit of \$113,260, most of which is depreciation expense (\$105,595).

Fundraising for the fiscal year was up over FY2013. Local business support was up by \$39,420 and listener support increased by \$36,929. The total increase in local fundraising of \$76,349 made up for the nearly \$60,000 cut in federal funding. We expect our local fundraising will continue to result in more funding through improved fundraising techniques. The station's Fall, 2014 on-air fundraiser was the best in the history of KUAF. And the first quarter of FY2015 was up substantially over the same period of FY2014.

KUAF's property and equipment, net of accumulated depreciation, totaled \$2,135,716 for FY 2014 compared to \$2,230,119 in FY 2013. 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.

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Management's Discussion and Analysis
For the Years Ended June 30, 2014 and 2013

Financial Analysis of the Statements

KUAF-FM condensed financial statements represented below for FY 2014 and 2013.

Condensed Statements of Net Position

	<u>2014</u>	<u>2013</u>
Assets:		
Current Assets	\$ 1,315,598	\$ 1,365,195
Noncurrent	<u>2,135,716</u>	<u>2,230,119</u>
Total Assets	<u><u>\$ 3,451,314</u></u>	<u><u>\$ 3,595,314</u></u>
Liabilities:		
Current Liabilities	\$ 80,870	90,610
Noncurrent liabilities	<u>930,000</u>	<u>951,000</u>
Total Liabilities	<u><u>\$ 1,010,870</u></u>	<u><u>\$ 1,041,610</u></u>
Net Position		
Invested in capital assets	\$ 1,184,716	\$ 1,259,119
Restricted	589,398	654,939
Unrestricted	<u>666,330</u>	<u>639,646</u>
Total Net Position	<u><u>\$ 2,440,444</u></u>	<u><u>\$ 2,553,704</u></u>

Condensed Statements of Revenues, Expenses and Changes in Net Position

	<u>2014</u>	<u>2013</u>
Corporation for Public Broadcasting Grant	\$ 125,976	\$ 185,689
Other operating revenues	755,539	693,262
Operating expenses	<u>(1,399,119)</u>	<u>(1,572,126)</u>
Operating loss	(517,604)	(693,175)
Nonoperating support and revenues	<u>404,344</u>	<u>491,817</u>
Change in Net Position	<u><u>\$ (113,260)</u></u>	<u><u>\$ (201,358)</u></u>
Net assets-beginning of year	<u>2,553,704</u>	<u>2,755,062</u>
Net assets-end of year	<u><u>\$ 2,440,444</u></u>	<u><u>\$ 2,553,704</u></u>

KUAF PUBLIC RADIO
Licensed to the Board of Trustees, University of Arkansas
Management's Discussion and Analysis
For the Years Ended June 30, 2014 and 2013

Condensed Statements of Cash Flows

	<u>2014</u>	<u>2013</u>
Net cash used by operating activities	\$ (425,384)	\$ (578,061)
Net cash provided by noncapital financing activities	393,550	478,193
Net cash provided (used) by capital and related financing activities	(31,192)	87,143
Net cash provided by investing activities	<u>7,952</u>	<u>7,788</u>
Net decrease in cash and cash equivalents	(55,074)	(4,937)
Cash and cash equivalents—beginning of year	<u>1,308,071</u>	<u>1,313,008</u>
Cash and cash equivalents—end of year	<u>\$ 1,252,997</u>	<u>\$ 1,308,071</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, 2014 and 2013
(See independent auditor's report.)

	<u>2014</u>	<u>2013</u>
<u>Assets</u>		
Current Assets		
Cash and cash equivalents	\$ 692,803	689,784
Restricted cash and cash equivalents	560,194	618,287
Investments - restricted	29,204	26,362
Contributions receivable	30,322	27,762
Prepaid expenses	3,075	3,000
Total Current Assets	<u>1,315,598</u>	<u>1,365,195</u>
Noncurrent assets		
Capital assets, net	<u>2,135,716</u>	<u>2,230,119</u>
Total Noncurrent Assets	<u>2,135,716</u>	<u>2,230,119</u>
Total Assets	<u><u>\$ 3,451,314</u></u>	<u><u>3,595,314</u></u>
 <u>Liabilities and Net Position</u>		
Current Liabilities		
Accounts payable	\$ 22,456	33,348
Compensated absences payable	37,414	37,262
Current portion of bond payable	21,000	20,000
Total Current Liabilities	<u>80,870</u>	<u>90,610</u>
Noncurrent Liabilities		
Bonds payable	<u>930,000</u>	<u>951,000</u>
Net Position		
Invested in capital assets	1,184,716	1,259,119
Restricted	589,398	654,939
Unrestricted net position	666,330	639,646
Total Net Position	<u>2,440,444</u>	<u>2,553,704</u>
Total Liabilities and Net Position	<u><u>\$ 3,451,314</u></u>	<u><u>3,595,314</u></u>

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, 2014 and 2013
(See independent auditor's report.)

	<u>2014</u>	<u>2013</u>
Operating Revenues		
Program underwriting	\$ 250,201	210,781
Membership contributions	449,114	412,185
The Corporation for Public Broadcasting grant	125,976	185,689
Contributed support	56,224	70,296
Total Operating Revenues	<u>881,515</u>	<u>878,951</u>
Operating Expenses		
Programming and production	722,546	723,410
Broadcasting	131,352	218,771
Program information	2,355	9,671
Management and general	395,265	489,147
Fund-raising and membership development	64,381	50,772
Grants expense	83,220	80,355
Total Operating Expenses	<u>1,399,119</u>	<u>1,572,126</u>
Operating Loss	<u>(517,604)</u>	<u>(693,175)</u>
Non-Operating Income (Expense)		
Investment income	10,573	9,384
Other income (expense)	221	125
Building campaign contributions	-	4,115
Total Non-Operating Income (Expense)	<u>10,794</u>	<u>13,624</u>
Loss Before Operating Transfers	<u>(506,810)</u>	<u>(679,551)</u>
Operating transfers from the University of Arkansas at Fayetteville	<u>393,550</u>	<u>478,193</u>
Change in Net Position	<u>(113,260)</u>	<u>(201,358)</u>
Net position - beginning of year	<u>2,553,704</u>	<u>2,755,062</u>
Net Position - End of Year	<u><u>\$ 2,440,444</u></u>	<u><u>2,553,704</u></u>

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

KUAF-FM
Statement of Cash Flows
For the Years Ended June 30, 2014 and 2013
(See independent auditor's report.)

	<u>2014</u>	<u>2013</u>
Cash Flows from Operating Activities:		
Cash received from:		
Program underwriting receipts	\$ 247,641	214,706
Membership contributions	449,114	412,161
Radio Community Service Grant	125,976	185,689
Contributed support	56,224	70,296
Cash payments for:		
Payments for programming and production	(704,645)	(705,607)
Payments for broadcasting	(96,074)	(182,824)
Payments for program information and promotion	(2,355)	(9,671)
Payments to suppliers and employees	(359,270)	(437,260)
Payments for fund-raising and membership development	(58,775)	(45,196)
Payments for grants	(83,220)	(80,355)
Net Cash Required by Operating Activities	<u>(425,384)</u>	<u>(578,061)</u>
Cash Flow from Noncapital Financing Activities:		
Transfers from the University of Arkansas at Fayetteville	393,550	478,193
Net Cash Provided by Noncapital Financing Activities	<u>393,550</u>	<u>478,193</u>
Cash Flow from Capital and Related Financing Activities:		
Principal payments on revenue bond	(20,000)	(19,000)
Purchases of capital assets	(11,192)	-
Capital campaign contributions	-	106,143
Net Cash Provided (Required) by Capital and Related Financing Activities	<u>(31,192)</u>	<u>87,143</u>
Cash Flows from Investing Activities:		
Net change in investments	(2,842)	(1,725)
Other income	221	129
Investment income	10,573	9,384
Net Cash Provided by Investing Activities	<u>7,952</u>	<u>7,788</u>
Increase (Decrease) in Cash and Cash Equivalents	(55,074)	(4,937)
Cash and cash equivalents - beginning of year	1,308,071	1,313,008
Cash and Cash Equivalents - End of year	<u>\$ 1,252,997</u>	<u>1,308,071</u>

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	\$ (517,604)	(693,175)
Adjustments to reconcile operating loss to net cash required by operating activities:		
Depreciation	105,595	105,886
(Increase) decrease in assets:		
Contributions receivable	(2,560)	3,899
Prepaid expenses	(75)	-
Increase (Decrease) in Liabilities:		
Accounts payable	(10,892)	986
Compensated absences payable	152	4,343
Net Cash Provided (Required) by Operating Activities	<u><u>\$ (425,384)</u></u>	<u><u>(578,061)</u></u>

KUAF-FM
Notes to Financial Statements
June 30, 2014 and 2013

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I. 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, 2014 and 2013

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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, 2014 and 2013, 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 assets at fair market value based on quoted market prices as of June 30, 2014 and 2013. 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 net assets. Gifts received with a donor stipulated time restriction are reported as temporarily restricted net assets. When the donor stipulated time restriction ends, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions.

KUAF-FM
Notes to Financial Statements
June 30, 2014 and 2013

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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 assets. 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 17, 2014, 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, 2014 and 2013

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3. Contributions Receivable

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

	2014		2013	
	Current	Long Term	Current	Long Term
Operations - restricted	\$ -	-	\$ 5,290	-
Building - restricted	-	-	5,000	-
Underwriting	26,918	-	17,472	-
Other	3,404	-	-	-
	<u>\$ 30,322</u>	<u>-</u>	<u>\$ 27,762</u>	<u>-</u>

4. Capital Assets

Capital assets consist 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>

Capital assets consists of the following as of June 30, 2013:

	2012	Additions	Transfers	Disposals	2013
Land	\$ 389,157	-	-	-	\$ 389,157
Equipment	378,042	-	-	-	378,042
Building	2,033,801	-	-	-	2,033,801
Radio tower	246,947	-	-	-	246,947
	<u>3,047,947</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,047,947</u>
Less accumulated depreciation	<u>(711,942)</u>	<u>(105,886)</u>	<u>-</u>	<u>-</u>	<u>(817,828)</u>
	<u>\$2,336,005</u>	<u>(105,886)</u>	<u>-</u>	<u>-</u>	<u>\$ 2,230,119</u>

KUAF-FM
Notes to Financial Statements
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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:

2015	\$ 42,634
2016	\$ 12,073

Total rental expense incurred during the years ended June 30, 2014 and 2013, was \$41,497 and \$40,392, 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, 2014 and 2013, was \$46,092 and \$46,879, respectively.

Future maturities of these bonds are as follows:

	Principal	Interest	Total Principal and Interest
2015	\$ 21,000	45,404	\$ 66,404
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
2020-2024	140,000	191,849	331,849
2025-2029	177,000	128,025	305,025
2030-2034	228,000	102,900	330,900
2035-2039	293,000	38,075	331,075
	<u>\$ 951,000</u>	<u>678,949</u>	<u>\$ 1,629,949</u>

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7. **Bonds Payable (continued)**

The following is a summary of the bonds payable activity:

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

	Balance June 30, 2012	Payments	Advances	Balance June 30, 2013
KUAF portion of University Revenue bonds	\$ 990,000	(19,000)	-	\$ 971,000

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

Board of Trustees
KUAF-FM
Fayetteville, Arkansas

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, 2014, and the related notes to the financial statements, which collectively comprise KUAF's basic financial statements, and have issued our report thereon dated December 17, 2014.

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.

EAP, PLLC

December 17, 2014

Certified Public Accountants and Consultants