

KLRE-FM/KUAR-FM
FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

KLRE-FM/KUAR-FM
JUNE 30, 2017 AND 2016
CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1
REQUIRED SUPPLEMENTARY INFORMATION	
Management's Discussion and Analysis	4
FINANCIAL STATEMENTS	
Statements of Net Position	8
Statements of Revenues, Expenses and Changes in Net Position.....	9
Statements of Cash Flows	10
Notes to Financial Statements	12
INDEPENDENT AUDITORS' 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	19

INDEPENDENT AUDITORS' REPORT

Audit and Fiscal Responsibility Committee
University of Arkansas System
Little Rock, Arkansas

Report on the Financial Statements

We have audited the accompanying financial statements of the **KLRE-FM/KUAR-FM** (the Station), which comprise the statements of net position as of June 30, 2017 and 2016, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 auditors' 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 auditors consider 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 the Station as of June 30, 2017 and 2016, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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 4 through 7 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.

Emphasis of Matter - Financial Reporting

As discussed in Note 1, the financial statements present only the funds of the Station 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, 2017 and 2016, 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 with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have issued our report dated January 8, 2018 on our consideration of the Station's internal control over financial reporting and 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 the 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 the Station's internal control over financial reporting and compliance.

Beall Barclay & Company, PLC

BEALL BARCLAY & COMPANY, PLC
Certified Public Accountants

Fort Smith, Arkansas
January 8, 2018

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, 2017, 2016, and 2015

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, 2017, 2016, and 2015. 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 85,000 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 only the combined funds held by the University of Arkansas- Little Rock (UA Little Rock) and the Friends of KLRE/KUAR funds held at the University of Arkansas Foundation (Foundation) for the benefit of KLRE-FM/KUAR-FM. Friends of KLRE/KUAR is a citizen- supported organization, which solicits funds to be used to support program production and broadcasting of public radio.

The financial statements of KLRE-FM/KUAR-FM consist of the Statements of Net Position, the Statements of Revenues, Expenses and Changes in Net Position and the Statement of Cash Flows. 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 Statements of Net Position includes Assets, Liabilities and Net Position of KLRE/KUAR as of June 30, 2017 and 2016. This statement is classified into Current and Non-Current Assets and Liabilities, with Net Position divided into Invested in Capital Assets, Restricted, and Unrestricted components. The Statements of Revenues, Expenses and Changes in Net Position depict the operating revenues and expenses resulting in Net Operating (Loss), which is then combined with Non-Operating Revenues (Expenses) and Operating Transfers from the University of Arkansas at Little Rock to provide the Change in Net Position. The Statements of Cash Flows shows the sources and uses of cash from operations, cash flows, from non-capital financial activities, cash flows (used for) 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 has a decrease in its Net Position of \$241,373 by June 30, 2017. This change followed an increase of \$98,650 at the end of FY 2016, and a decrease of \$89,507 at the end of FY 2015, for a total net decrease over the 3-year period of \$232,230. The decrease for FY 2017 was largely due to T&M Engineering expenses related to the build out expenses associated with KUAR Studio and merit, retention and equity raises to some staff members. Net position for the year ending June 30, 2017 totaled \$670,819 (FY 2017), \$912,192 for the year ending June 30, 2016 (FY 2016), and \$813,542 for the year ending June 30, 2015 (FY 2015).

Operating Revenues were at \$916,494 for FY 2017, compared to \$1,108,102 for FY 2016 and \$812,678 for FY 2015. Program Underwriting was down \$46,382 from FY 2016 bringing the annual amount to \$277,802. In FY 2016 and FY 2015, Program Underwriting was \$324,184 and \$266,072, respectively. The decline in FY 2017 was due to some underwriting contracts expiring and not being renewed. Contributions raised by Friends were down in FY 2017 at \$485,286 as compared to \$549,051 in FY 2016, as compared to \$418,430 in FY 2015. The decrease in FY 2017 was largely due to an estate gift of roughly \$112,000 which was received in FY 2016. The otherwise-stabilized level of contributions to Friends is partly due to having a full-time Development Director for the entire year, after being without a Director in FY 2015.

KLRE/ KUAR's Operating Expenses increased by 13.7% in FY 2017 compared with the previous fiscal year, with totals of \$1,489,038 in FY 2017, \$1,308,969 in FY 2016, and \$1,265,498 in FY 2015. The Net Operating Loss for FY 2017 was \$572,544, including non-cash depreciation expense of \$51,150, compared with a net loss of \$200,867 in FY 2016, including \$49,960 in non-cash depreciation, and a \$452,820 loss in FY 2015, including \$51,029 in non-cash depreciation.

Net Non-Operating Revenues were up in FY 2017 \$50,490 from FY 2016, with the fair value of the Ledbetter Endowment Fund increasing by \$30,061 compared to a decrease of \$20,127 in FY 2016 and a decrease of \$1,991 in FY 2015. Non-operating Revenues (Expenses) were \$43,987 in FY 2017, compared to \$(6,503) in FY 2016, and \$17,744 in FY 2015.

Operating transfers from the University of Arkansas at Little Rock decreased 7% in FY 2017. The decrease is attributable to salary savings in the Extension Assistant position that was left vacant after the passing of the General Manager, Ben Fry, in FY 2016. The former Extension Assistant is currently serving as the Interim General Manager. Totals for FY 2017 were \$287,184 compared to \$306,020 in FY 2016 and \$345,569 in FY 2015.

KLRE-FM/KUAR-FM's property and equipment, net of accumulated depreciation, totaled \$547,269 at June 30, 2017. The amounts on June 30, 2016 and June 30, 2015 were \$508,607 and \$534,839, respectively. Property and equipment additions totaled \$46,905 in FY 2017; \$23,728 in FY 2016 and \$0 in FY 2015.

As reflected in the accompanying financial statements and as discussed above, KLRE/ KUAR experienced a decrease of \$241,373 in Net Position for FY 2017. The management of KLRE/ KUAR is monitoring the revenues and expenses and has taken actions for FY 2018 that resulted in a reduction of personnel and operating expenses, particularly in the programming area. The current estimated savings for these

reductions are \$154,007 for salaries from the original budget, \$50,000 in other expenses, and UA Little Rock's contribution was restored in FY 2018, which is an estimated increase of \$40,000. Management believes that KLRE/ KUAR has steady staff, which is imperative to stabilizing its financial position. Additionally, contributions and fundraising goals have been set and are being closely monitored to ensure revenue continues to increase. KLRE/ KUAR, in conjunction with UA Little Rock, continues to work on a financial plan for future years and we believe with the measures we are currently taking will continue to improve the financial position of the Radio Stations.

KLRE-FM/KUAR-FM condensed financial statements represented below for FY 2017, 2016, and 2015.

Summary of Net Position			
June 30,			
	2017	2016	2015
Assets:			
Current Assets	\$ 98,634	\$ 261,158	\$ 129,770
Non-Current Assets	883,862	815,139	861,498
Total Assets	982,496	1,076,297	991,268
Liabilities:			
Current Liabilities	311,677	164,105	177,726
Long-Term Debt, Less Current Position		-	
Net Position:			
Invested in Capital Assets	547,269	508,607	534,839
Restricted for:			
Endowment- expendable	86,593	56,532	76,659
Endowment- nonexpendable	250,000	250,000	250,000
Arkansas Public Media Grant	-	94,402	-
Unrestricted	(213,043)	2,651	(47,956)
Total Liabilities and Net Position	\$ 982,496	\$ 1,076,297	\$ 991,268

Condensed Statements of Revenues, Expenses and Changes in Net Position

	2017	2016	2015
Corporation for Public Broadcasting Grants	\$ 153,406	\$ 234,867	\$ 128,176
Other Operating Revenues	763,088	873,235	684,502
Other Expenses	1,489,038	1,308,969	1,265,498
Operating Loss	(572,544)	(200,867)	(452,820)
Non-Operating Revenues	43,987	(6,503)	17,744
Operating Transfers for UA Little Rock	287,184	306,020	345,569
Net Non-Operating Revenues	331,171	299,517	363,313
Increase (Decrease) in Net Position	(241,373)	98,650	(89,507)
Net Position, Beginning of Year	912,192	813,542	903,049
Net Position, End of Year	\$ 670,819	\$ 912,192	\$ 813,542

Condensed Statements of Cash Flows

	2017	2016	2015
Net Cash Flows Used by Operating Activity	\$ (441,234)	\$ (179,545)	\$ (406,752)
Net Cash Flows Provided by Noncapital Financing Activities	287,184	306,020	351,510
Net Cash Flows used by Capital and Related Financing Activities	(17,823)	(43,728)	(30,000)
Net Cash Flows from Investing Activities	13,926	13,624	13,794
Net Increase (Decrease) in Cash	(157,947)	96,371	(71,448)
Cash and Cash Equivalents, Beginning of Year	184,961	88,590	160,038
Cash and Cash Equivalents, End of Year	\$ 27,014	\$ 184,961	\$ 88,590

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 \$287,184, \$306,020, and \$345,569 at June 30, 2017, 2016, and 2015, 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
STATEMENTS OF NET POSITION
JUNE 30, 2017 AND 2016

	2017	2016
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 27,014	\$ 184,961
Accounts receivable, net of allowance of \$5,556 and \$6,463, respectively	35,139	73,678
Grant receivable	36,481	-
Prepaid expenses	-	2,519
	<hr/>	<hr/>
Total Current Assets	98,634	261,158
	<hr/>	<hr/>
NONCURRENT ASSETS		
Endowment fund	336,593	306,532
Capital assets, net	547,269	508,607
	<hr/>	<hr/>
Total Noncurrent Assets	883,862	815,139
	<hr/>	<hr/>
Total Assets	<u>\$ 982,496</u>	<u>\$ 1,076,297</u>
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	\$ 209,151	\$ 75,873
Bank overdraft	34,916	-
Compensated absences payable	29,427	26,814
Deferred revenue	9,017	26,418
Note payable to University	29,166	35,000
	<hr/>	<hr/>
Total Current Liabilities	311,677	164,105
	<hr/>	<hr/>
NET POSITION		
Invested in capital assets	547,269	508,607
Restricted for endowment		
Expendable	86,593	56,532
Nonexpendable	250,000	250,000
Restricted for Arkansas Public Media	-	94,402
Unrestricted net position	(213,043)	2,651
	<hr/>	<hr/>
Total Net Position	670,819	912,192
	<hr/>	<hr/>
Total Liabilities and Net Position	<u>\$ 982,496</u>	<u>\$ 1,076,297</u>

See Independent Auditors' Report and Notes to Financial Statements.

KLRE-FM/KUAR-FM
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
OPERATING REVENUE		
Program underwriting	\$ 277,802	324,184
Contributions raised by Friends	485,286	549,051
Corporation for Public Broadcasting Grants:		
Arkansas Public Media grant	36,481	100,470
Community service grant	<u>116,925</u>	<u>134,397</u>
 Total operating revenues	 <u>916,494</u>	 <u>1,108,102</u>
OPERATING EXPENSES		
Programming and production	673,629	622,977
General administration	495,162	361,873
Broadcasting	159,194	154,803
Fund-raising and membership development	109,070	129,690
Program information and promotion	<u>51,983</u>	<u>39,626</u>
 Total operating expenses	 <u>1,489,038</u>	 <u>1,308,969</u>
 Operating (loss)	 <u>(572,544)</u>	 <u>(200,867)</u>
NONOPERATING REVENUES (EXPENSES)		
Investment income (loss)	<u>43,987</u>	<u>(6,503)</u>
 Total nonoperating revenues (expenses)	 <u>43,987</u>	 <u>(6,503)</u>
 Net (loss) before operating transfers	 (528,557)	 (207,370)
 Operating transfers from the University of Arkansas at Little Rock	 <u>287,184</u>	 <u>306,020</u>
 Change in net position	 (241,373)	 98,650
 Net position, beginning of year	 <u>912,192</u>	 <u>813,542</u>
 Net position, end of year	 <u>\$ 670,819</u>	 <u>\$ 912,192</u>

See Independent Auditors' Report and Notes to Financial Statements.

KLRE-FM/KUAR-FM
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
OPERATING ACTIVITIES		
Cash received from:		
Program underwriting receipts	\$ 298,940	\$ 295,385
Contributions raised by Friends	485,286	549,051
The Corporation for Public Broadcasting Grants	116,925	234,867
Cash payments for:		
Programming and production	(661,583)	(624,121)
General administration	(463,363)	(310,608)
Broadcasting	(89,852)	(154,803)
Fund-raising and membership development	(108,775)	(129,690)
Program information and promotion	(18,812)	(39,626)
	<u>(441,234)</u>	<u>(179,545)</u>
Net cash (used for) operating activities	<u>(441,234)</u>	<u>(179,545)</u>
NONCAPITAL FINANCING ACTIVITIES		
Transfer from the University of Arkansas at Little Rock	<u>287,184</u>	<u>306,020</u>
Net cash from noncapital financing activities	<u>287,184</u>	<u>306,020</u>
CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(46,905)	(23,728)
Payments on note payable to University	(5,834)	(20,000)
Change in bank overdraft	<u>34,916</u>	<u>-</u>
Net cash (used for) capital and related financing activities	<u>(17,823)</u>	<u>(43,728)</u>
INVESTING ACTIVITIES		
Endowment funds released from restriction	(30,061)	-
Investment income received	<u>43,987</u>	<u>13,624</u>
Net cash from investing activities	<u>13,926</u>	<u>13,624</u>
Net change in cash and cash equivalents	(157,947)	96,371
Cash and cash equivalents, beginning of year	<u>184,961</u>	<u>88,590</u>
Cash and cash equivalents, end of year	<u>\$ 27,014</u>	<u>\$ 184,961</u>

See Independent Auditors' Report and Notes to Financial Statements.

KLRE-FM/KUAR-FM
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
RECONCILIATION OF OPERATING (LOSS) TO		
NET CASH (USED FOR) OPERATING ACTIVITIES		
Operating (loss)	\$ (572,544)	\$ (200,867)
Depreciation	51,150	49,960
Changes in:		
Accounts receivable	38,539	(35,017)
Grants receivable	(36,481)	-
Prepaid expenses	2,519	-
Accounts payable	90,371	(1,989)
Compensated absences payable	2,613	-
Deferred revenue	(17,401)	8,368
	<u> </u>	<u> </u>
Net cash (used for) operating activities	<u>\$ (441,234)</u>	<u>\$ (179,545)</u>

See Independent Auditors' Report and Notes to Financial Statements.

KLRE-FM/KUAR-FM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

The Station is a department of the University of Arkansas at Little Rock (UA Little Rock) and is comprised of two licensed public telecommunications radio stations. UA Little Rock is both the licensee and operator of the radio stations. The Station 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 UA Little Rock's policies, certain cash, pledge and investment accounts of the Station 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 UA Little Rock and other affiliated entities related to UA Little Rock. Only accounts held at the Foundation and UA Little Rock for the benefit of the Station are included in these financial statements.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The Station has adopted Governmental Accounting Standards Board ("GASB") Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AJCPA 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 the Station's resources are derived from general contributions and support from the Corporation for Public Broadcasting Radio Community ("CPB") and UA Little Rock, 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, the Station 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 nonoperating revenues (expenses), but remain a major component of the overall revenues and expenses of the Station.

KLRE-FM/KUAR-FM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Station 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 UA Little Rock and the Foundation on behalf of the Station.

Accounts Receivable

The Station 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 the Station'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 Station. At June 30, 2017 and 2016 management had recorded an allowance for doubtful accounts of \$5,556 and \$6,463, 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 charge to expense as incurred. Depreciation is computed on the straight-line method for financial reporting purposes, based on the estimated useful lived 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. The Station capitalizes all purchases over \$2,500 and a useful life over one year.

Investments and Investment Income

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, 2017 and 2016. Any concentration of credit risk from investments is expected to be insignificant.

Investment income includes dividend and interest income and the net change for the year in the fair value of investments.

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, 2017 AND 2016

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

UA Little Rock provides the use of certain office and studio space to the Station. 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 UA Little Rock which consists of allocated financial department costs and other expenses incurred on behalf of the Station. All such support from UA Little Rock is recorded as an operating transfer.

Tax Status

The Station is considered political subdivision of UA Little Rock 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 estimated and assumptions that affect the reported amounts of asset 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 result could differ from those estimates.

Net Position Classifications

Net position is classified and displayed in the following three components:

Invested in capital assets – Consists of capital assets, net of accumulated depreciation

Restricted – Consists of net assets with constraints placed on their use either by external groups such as creditors, grantors, contributors, or laws and regulations of other governments.

Unrestricted – All other net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted".

Use of Restricted Funds

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

Subsequent Events

Subsequent events are evaluated through the date the financial statements were available to be issued, which is the date of the Independent Auditor's Report.

KLRE-FM/KUAR-FM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

Compensated Absences

The liability for compensated absences consists of unpaid, accumulated annual leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

Long-Lived Assets

FASB Accounting Standards Codification (Codification) Topic *Property, Plant and Equipment, Section Subsequent Measurement* requires that long-lived assets and certain identifiable intangibles held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The application of this Codification Topic has not materially affected the Station's reported earnings, financial condition or cash flows.

Reclassification

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

NOTE 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. The Station's funds are held by UA Little Rock and the Foundation. UA Little Rock 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.

NOTE 3: AGREEMENT TO PROVIDE OPERATIONS

UA Little Rock entered into an agreement to provide for licensing and operation of the Station. Under this agreement, UA Little Rock 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:

	2017	2016
General appropriations	\$ 159,767	\$ 193,156
Utilities, in-kind	23,894	28,064
Facilities use and administrative support, in kind	<u>103,523</u>	<u>84,800</u>
	<u><u>\$ 287,184</u></u>	<u><u>\$ 306,020</u></u>

KLRE-FM/KUAR-FM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 4: CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2017 was:

	BEGINNING BALANCE	ADDITIONS	DEDUCTIONS	ENDING BALANCE
Equipment rights	\$ 332,689	\$ -	\$ (19,437)	\$ 313,252
Radio tower and antenna	575,756	-	-	575,756
Other broadcast equipment	245,197	-	(150,016)	95,181
Building improvements	116,249	89,812	-	206,061
Office furniture and equipment	51,377	-	(23,252)	28,125
Total assets	1,321,268	89,812	(192,705)	1,218,375
Less accumulated depreciation	(812,661)	(51,150)	192,705	(671,106)
	<u>\$ 508,607</u>	<u>\$ 38,662</u>	<u>\$ -</u>	<u>\$ 547,269</u>

Capital assets activity for the year ended June 30, 2016 was:

	BEGINNING BALANCE	ADDITIONS	DEDUCTIONS	ENDING BALANCE
Equipment rights	\$ 332,689	\$ -	\$ -	\$ 332,689
Radio tower and antenna	575,756	-	-	575,756
Other broadcast equipment	231,821	13,376	-	245,197
Building improvements	105,897	10,352	-	116,249
Office furniture and equipment	51,377	-	-	51,377
Total assets	1,297,540	23,728	-	1,321,268
Less accumulated depreciation	(762,701)	(49,960)	-	(812,661)
	<u>\$ 534,839</u>	<u>\$ (26,232)</u>	<u>\$ -</u>	<u>\$ 508,607</u>

NOTE 5: RESTRICTED NET POSITION

Permanently restricted net position

Support of \$250,000 was contributed to a permanently restricted endowment at the Foundation on behalf of the Station 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 appreciation of the fund may be used for general operating support of the Station. The net appreciation on investments available for authorization for expenditure by the governing board as of June 30, 2017 and 2016 was \$86,593 and \$56,532, respectively. These amounts are reported under net position restricted for endowment - expendable.

KLRE-FM/KUAR-FM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

Interpretation of Relevant Law

The Foundation interprets Arkansas Act 262, cited as the "Uniform Prudent Management of Institutional Funds Act" (UPMIF A), which was approved February 2009, as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of applicable donor gift instruments at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard prudence prescribed in UPMIF A. In accordance with UPMIF A, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- 1) The duration and preservation of the fund
- 2) The purpose of the Foundation and the donor-restricted endowment fund
- 3) General economic conditions
- 4) The possible effect of inflation and deflation
- 5) The expected total return from income and the appreciation of investments
- 6) Other resources of the Foundation
- 7) The investment policy of the Foundation

Spending Policy

The Board-approved spending policy of the Foundation allows transfers of endowments quarterly to appropriate funds based on a spending rate of 5% in 2017 and 2016 to the 36-month average fair value as of the end of each quarter. The funds are invested in an external investment pool at the Foundation. 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.

Temporarily restricted net position

During the year ended June 30, 2016, the Station received a grant disbursement of \$100,470 of a \$278,300 grant from the CPB to be used for the purpose of consolidating journalism collaboration between four public radio stations in Arkansas, enabling coordinated statewide news coverage of rural Arkansas with a unified editorial focus on topics important to the state, including education, healthcare, and energy (the "Arkansas Public Media" project).

KLRE-FM/KUAR-FM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

The Station, as lead partner, is responsible for the receipt and expenditure of grant funds. The remaining grant funds of \$177,830 will be paid in phases based on progress reports prepared during the project as follows:

- \$100,000 upon receipt of reports due no later than December 31, 2017.
- Up to \$77,830 upon receipt of final reports due no later than November 30, 2018.

Amounts expended under this grant totaled \$130,883 and \$6,068 during the years ended June 30, 2017 and 2016, respectively. Under the terms of the CPB grant, \$36,481 in amounts expended are still receivable from the CPB at June 30, 2017, and are reported under current assets as "Grant receivable" on the Statements of Net Position.

NOTE 6: PERSONNEL EXPENSES

All personnel working at the Station are employees of UA Little Rock, and thus are eligible for retirement or other benefits provided by UA Little Rock. The Station reimburses UA Little Rock for all wages and benefits related to the operations of the Station.

NOTE 7: NOTE PAYABLE

The Station entered into a note payable agreement in June 2014 with the University. The note is non-interest bearing and was expected to be repaid from station underwriting, transfers from the Ledbetter Spendable account and transfers from the Friends of KLRE/KUAR account by the end of fiscal year in 2016. At June 30, 2017 and 2016, \$29,166 and \$35,000, respectively, was still outstanding, and the note is expected to be paid during fiscal year 2018.

NOTE 8: NONCASH INVESTING ACTIVITIES

During the year ended June 30, 2017, the Station had noncash investing activities as follows:

Purchase price for capital expenditures	\$ 89,812
Less: Purchases included in accounts payable	<u>(42,907)</u>
Cash paid for capital expenditures	<u><u>\$ 46,905</u></u>

**INDEPENDENT AUDITORS' 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
University of Arkansas System
Little Rock, Arkansas

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 the **KLRE-FM/KUAR-FM** (the Station) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Station's basic financial statements, and have issued our report thereon dated January 8, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Station'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Station's internal control. Accordingly, we do not express an opinion on the effectiveness of the Station'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 Station'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 the Station's financial statements are free of 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 Station'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 Station's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Beall Barclay & Company, PLC

BEALL BARCLAY & COMPANY, PLC

Certified Public Accountants

Fort Smith, Arkansas

January 8, 2018