

**KLRE-FM/KUAR-FM  
FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

**KLRE-FM/KUAR-FM**  
**JUNE 30, 2018 AND 2017**  
**CONTENTS**

	<b>Page</b>
<b>INDEPENDENT AUDITOR’S REPORT</b> .....	1
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
Management’s Discussion and Analysis .....	4
<b>FINANCIAL STATEMENTS</b>	
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
<b>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</b> .....	19



## **INDEPENDENT AUDITOR'S 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, 2018 and 2017, 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.

### ***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. 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 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 the Station as of June 30, 2018 and 2017, 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, 2018 and 2017, 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 2, 2019 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.

*Landmark PLC*

**LANDMARK PLC  
CERTIFIED PUBLIC ACCOUNTANTS**

Fort Smith, Arkansas  
January 2, 2019

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, 2018, 2017, and 2016

### **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, 2018, 2017, and 2016. 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 80,000 persons each week. Contributing membership consists of approximately 2,600 individuals.

### **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, 2018 and 2017. 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 an increase in its Net Position of \$57,755 by June 30, 2018. This change followed a decrease of \$241,373 at the end of FY 2017, and an increase of \$98,650 at the end of FY 2016, for a total net decrease over the 3-year period of \$84,968. The increase for FY 2018 was largely due to a one-time reduction in programming expenses for FY 2018; realizing there were sales tax payments made on programming expenses in prior years, but the payments were not needed, since there is no physical product (all transmitted through computer); permanent reduction in operating expenses by reviewing bills; some staff turnover, specifically a vacancy in Development Director position for 6 months; and increased efforts for both underwriting and individual giving. Net position for the year ending June 30, 2018 totaled \$728,574 (FY 2018), \$670,819 for the year ending June 30, 2017 (FY 2017), and \$912,192 for the year ending June 30, 2016 (FY 2016).

Operating Revenues were at \$1,247,378 for FY 2018, compared to \$916,494 for FY 2017 and \$1,108,102 for FY 2016. Program Underwriting was up \$70,727 from FY 2017 bringing the annual amount to \$348,529. In FY 2017 and FY 2016, Program Underwriting was \$277,802 and \$324,184, respectively. The increase in FY 2018 was due to an increased effort in securing underwriting contracts and looking for potential underwriting prospects that have not been considered in the past. Contributions raised by Friends were up in FY 2018 at \$596,106 as compared to \$485,286 in FY 2017, as compared to \$549,051 in FY 2016. The increase in FY 2018 was largely due to an estate gift of roughly \$60,000 received in FY2018 and increased efforts in fundraising. There was no Development Director for 6 months during FY 2018, but with the support of the staff during the interim and a motivated Development Director for the latter half of the year, KLRE/ KUAR was able to increase individual giving, outside of the estate gift, by about \$50,000.

KLRE/ KUAR's Operating Expenses increased by 4.7% in FY 2018 compared with the previous fiscal year, with totals of \$1,558,628 in FY 2018, \$1,489,038 in FY 2017, and \$1,308,969 in FY 2016. The Net Operating Loss for FY 2018 was \$311,250, including non-cash depreciation expense of \$59,607, compared with a net loss of \$572,544 in FY 2017, including \$51,150 in non-cash depreciation, and a \$200,867 loss in FY 2016, including \$49,960 in non-cash depreciation.

Net Non-Operating Revenues were down in FY 2018 \$14,109 from FY 2017. Non-operating Revenues (Expenses) were \$29,878 in FY 2018, compared to \$43,987 in FY 2017, and \$(6,503) in FY 2016.

Operating transfers from the University of Arkansas at Little Rock increased 18% in FY 2018. The increase is attributable to a salary line transfer from a vacant position to a portion of the Finance Director (Institutional Assistant) position. There was also an increase in indirect expenses from the university, mainly attributable to a new HVAC unit for KLRE/ KUAR building and an IT infrastructure project to increase Wi-Fi connection. Totals for FY 2018 were \$339,127 compared to \$287,184 in FY 2017 and \$306,020 in FY 2016.

KLRE-FM/KUAR-FM's property and equipment, net of accumulated depreciation, totaled \$492,193 at June 30, 2018. The amounts on June 30, 2017 and June 30, 2016 were \$547,269 and \$508,607, respectively. Property and equipment additions totaled \$4,531 in FY 2018; \$46,905 in FY 2017 and \$23,728 in FY 2016.

KLRE-FM/KUAR-FM condensed financial statements represented below for FY 2018, 2017, and 2016.

<b>Summary of Net Position</b>			
<b>June 30,</b>			
	<b>2018</b>	2017	2016
<b>Assets:</b>			
Current Assets	\$ 229,187	\$ 98,634	\$ 261,158
Non-Current Assets	<b>844,670</b>	883,862	815,139
Total Assets	<b>1,073,857</b>	982,496	1,076,297
<b>Liabilities:</b>			
Current Liabilities	<b>345,283</b>	311,677	164,105
Long-Term Debt, Less Current Position			-
<b>Net Position:</b>			
Invested in Capital Assets	<b>492,193</b>	547,269	508,607
<b>Restricted for:</b>			
Endowment- expendable	<b>102,477</b>	86,593	56,532
Endowment- nonexpendable	<b>250,000</b>	250,000	250,000
Arkansas Public Media Grant	-	-	94,402
Unrestricted	<b>(116,096)</b>	(213,043)	2,651
Total Liabilities and Net Position	<b>\$ 1,073,857</b>	\$ 982,496	\$ 1,076,297

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

	<b>2018</b>	2017	2016
Corporation for Public Broadcasting Grants	\$ 302,743	\$ 153,406	\$ 234,867
Other Operating Revenues	<b>944,635</b>	763,088	873,235
Other Expenses	<b>1,558,628</b>	1,489,038	1,308,969
Operating Loss	<b>(311,250)</b>	(572,544)	(200,867)
Non-Operating Revenues	<b>29,878</b>	43,987	(6,503)
Operating Transfers for UA Little Rock	<b>339,127</b>	287,184	306,020
Net Non-Operating Revenues	<b>369,005</b>	331,171	299,517
Increase (Decrease) in Net Position	<b>57,755</b>	(241,373)	98,650
Net Position, Beginning of Year	<b>670,819</b>	912,192	813,542
Net Position, End of Year	<b>\$ 728,574</b>	\$ 670,819	\$ 912,192

### Condensed Statements of Cash Flows

	<b>2018</b>	2017	2016
Net Cash Flows Used by Operating Activity	\$ (212,301)	\$ (441,234)	\$ (179,545)
Net Cash Flows Provided by Noncapital Financing Activities	<b>339,127</b>	287,184	306,020
Net Cash Flows used by Capital and Related Financing Activities	<b>(59,708)</b>	(17,823)	(43,728)
Net Cash Flows from Investing Activities	<b>13,994</b>	13,926	13,624
Net Increase (Decrease) in Cash	<b>81,112</b>	(157,947)	96,371
Cash and Cash Equivalents, Beginning of Year	<b>27,014</b>	184,961	88,590
Cash and Cash Equivalents, End of Year	<b>\$ 108,126</b>	\$ 27,014	\$ 184,961



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 \$339,127, \$287,184, and \$306,020 at June 30, 2018, 2017, and 2016, 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, 2018 AND 2017**

	<b>2018</b>	<b>2017</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 108,126	\$ 27,014
Accounts receivable, net of allowance of \$6,971 and \$5,556, respectively	110,490	35,139
Grant receivable	2,342	36,481
Prepaid expenses	8,229	-
	<hr/>	<hr/>
Total Current Assets	229,187	98,634
	<hr/>	<hr/>
<b>NONCURRENT ASSETS</b>		
Endowment fund	352,477	336,593
Capital assets, net	492,193	547,269
	<hr/>	<hr/>
Total Noncurrent Assets	844,670	883,862
	<hr/>	<hr/>
Total Assets	<u>\$ 1,073,857</u>	<u>\$ 982,496</u>
<b>LIABILITIES AND NET POSITION</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 218,260	\$ 209,151
Bank overdraft	8,905	34,916
Compensated absences payable	31,504	29,427
Deferred revenue	86,614	9,017
Note payable to University	-	29,166
	<hr/>	<hr/>
Total Current Liabilities	345,283	311,677
	<hr/>	<hr/>
<b>NET POSITION</b>		
Invested in capital assets	492,193	547,269
Restricted for endowment		
Expendable	102,477	86,593
Nonexpendable	250,000	250,000
Unrestricted net position	(116,096)	(213,043)
	<hr/>	<hr/>
Total Net Position	728,574	670,819
	<hr/>	<hr/>
Total Liabilities and Net Position	<u>\$ 1,073,857</u>	<u>\$ 982,496</u>

See Independent Auditor's Report and Notes to Financial Statements.

**KLRE-FM/KUAR-FM**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**YEARS ENDED JUNE 30, 2018 AND 2017**

	<b>2018</b>	<b>2017</b>
<b>OPERATING REVENUE</b>		
Program underwriting	\$ 348,529	277,802
Contributions raised by Friends Corporation for Public Broadcasting Grants:	596,106	485,286
Arkansas Public Media grant	182,670	36,481
Community service grant	<u>120,073</u>	<u>116,925</u>
 Total operating revenues	 <u>1,247,378</u>	 <u>916,494</u>
<b>OPERATING EXPENSES</b>		
Programming and production	664,230	673,629
General administration	628,262	495,162
Broadcasting	157,999	159,194
Fundraising and membership development	58,358	109,070
Program information and promotion	<u>49,779</u>	<u>51,983</u>
 Total operating expenses	 <u>1,558,628</u>	 <u>1,489,038</u>
 Operating (loss)	 <u>(311,250)</u>	 <u>(572,544)</u>
<b>NONOPERATING REVENUES</b>		
Investment income	<u>29,878</u>	<u>43,987</u>
 Total nonoperating revenues	 <u>29,878</u>	 <u>43,987</u>
 Net (loss) before operating transfers	 (281,372)	 (528,557)
 Operating transfers from the University of Arkansas at Little Rock	 <u>339,127</u>	 <u>287,184</u>
 Change in net position	 57,755	 (241,373)
 Net position, beginning of year	 <u>670,819</u>	 <u>912,192</u>
 Net position, end of year	 <u>\$ 728,574</u>	 <u>\$ 670,819</u>

See Independent Auditor's Report and Notes to Financial Statements.

**KLRE-FM/KUAR-FM**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2018 AND 2017**

	<b>2018</b>	<b>2017</b>
<b>OPERATING ACTIVITIES</b>		
Cash received from:		
Program underwriting receipts	\$ 350,775	\$ 298,940
Contributions raised by Friends	596,106	485,286
The Corporation for Public Broadcasting Grants	336,882	116,925
Cash payments for:		
Programming and production	(652,380)	(661,583)
General administration	(631,984)	(463,363)
Broadcasting	(146,506)	(89,852)
Fund-raising and membership development	(58,358)	(108,775)
Program information and promotion	(6,836)	(18,812)
Net cash (used for) operating activities	(212,301)	(441,234)
<b>NONCAPITAL FINANCING ACTIVITIES</b>		
Transfer from the University of Arkansas at Little Rock	339,127	287,184
Net cash from noncapital financing activities	339,127	287,184
<b>CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of capital assets	(4,531)	(46,905)
Payments on note payable to University	(29,166)	(5,834)
Change in bank overdraft	(26,011)	34,916
Net cash (used for) capital and related financing activities	(59,708)	(17,823)
<b>INVESTING ACTIVITIES</b>		
Endowment funds released from restriction	(15,884)	(30,061)
Investment income received	29,878	43,987
Net cash from investing activities	13,994	13,926
Net change in cash and cash equivalents	81,112	(157,947)
Cash and cash equivalents, beginning of year	27,014	184,961
Cash and cash equivalents, end of year	\$ 108,126	\$ 27,014

See Independent Auditor's Report and Notes to Financial Statements.

**KLRE-FM/KUAR-FM  
STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2018 AND 2017**

	<b>2018</b>	<b>2017</b>
<b>RECONCILIATION OF OPERATING (LOSS) TO NET CASH (USED FOR) OPERATING ACTIVITIES</b>		
Operating (loss)	\$ (311,250)	\$ (572,544)
Depreciation	59,607	51,150
Changes in:		
Accounts receivable	(75,351)	38,539
Grants receivable	34,139	(36,481)
Prepaid expenses	(8,229)	2,519
Accounts payable	35,923	90,371
Compensated absences payable	(24,737)	2,613
Deferred revenue	<u>77,597</u>	<u>(17,401)</u>
 Net cash (used for) operating activities	 <u>\$ (212,301)</u>	 <u>\$ (441,234)</u>

See Independent Auditor's Report and Notes to Financial Statements.

**KLRE-FM/KUAR-FM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

**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, 2018 AND 2017**

***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, 2018 and 2017 management had recorded an allowance for doubtful accounts of \$6,971 and \$5,556, 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, 2018 and 2017. 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, 2018 AND 2017**

***Advertising***

The Station follows the policy of charging advertising to expense as incurred. For the years ended June 30, 2018 and 2017, advertising expense was approximately \$1,300 and \$2,400, respectively.

***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.



**KLRE-FM/KUAR-FM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

***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.

***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.

**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:

	<b>2018</b>	<b>2017</b>
General appropriations	\$ 198,869	\$ 159,767
Utilities, in-kind	21,049	23,894
Facilities use and administrative support, in kind	119,209	103,523
	\$ 339,127	\$ 287,184

**KLRE-FM/KUAR-FM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

**NOTE 4: CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2018 was:

	<b>BEGINNING BALANCE</b>	<b>ADDITIONS</b>	<b>DEDUCTIONS</b>	<b>ENDING BALANCE</b>
Equipment rights	\$ 313,252	\$ -	\$ -	\$ 313,252
Radio tower and antenna	575,756	-	-	575,756
Other broadcast equipment	95,181	-	(5,459)	89,722
Building improvements	206,061	4,531	-	210,592
Office furniture and equipment	28,125	-	-	28,125
Total assets	1,218,375	4,531	(5,459)	1,217,447
Less accumulated depreciation	(671,106)	(59,607)	5,459	(725,254)
	<u>\$ 547,269</u>	<u>\$ (55,076)</u>	<u>\$ -</u>	<u>\$ 492,193</u>

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

	<b>BEGINNING BALANCE</b>	<b>ADDITIONS</b>	<b>DEDUCTIONS</b>	<b>ENDING BALANCE</b>
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>

**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, 2018 and 2017 was \$102,477 and \$86,593, respectively. These amounts are reported under net position restricted for endowment - expendable.

**KLRE-FM/KUAR-FM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

*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 2018 and 2017 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 years ended June 30, 2018 and 2016, the Station received \$125,000 and \$100,470, respectively, of a \$278,300 grant from the Corporation for Public Broadcasting (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, 2018 AND 2017**

The Station, as lead partner, is responsible for the receipt and expenditure of grant funds. The remaining grant funds of \$52,830 will be paid upon receipt of the final reports due no later than November 30, 2018.

Amounts expended under this grant totaled \$92,245 and \$130,883 during the years ended June 30, 2018 and 2017, respectively. Under the terms of the CPB grant, \$2,342 and \$36,481 in amounts expended are still receivable from the CPB at June 30, 2018 and 2017, respectively, 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, \$29,166 was still outstanding. The loan was paid in full during the year ended June 30, 2018.



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Audit and Fiscal Responsibility Committee  
**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, 2018, 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 2, 2019.

**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.

*Landmark PLC*

**LANDMARK PLC  
CERTIFIED PUBLIC ACCOUNTANTS**

Fort Smith, Arkansas  
January 2, 2019