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**KNAU RADIO – A PUBLIC  
TELECOMMUNICATIONS ENTITY**

**FINANCIAL STATEMENTS**

**JUNE 30, 2008 and 2007**

**TOGETHER WITH INDEPENDENT AUDITOR'S  
REPORT**

**KNAU RADIO – A PUBLIC TELECOMMUNICATIONS ENTITY**

**OPERATED BY NORTHERN ARIZONA UNIVERSITY**

**FINANCIAL STATEMENTS**

**JUNE 30, 2008 and 2007**

**TOGETHER WITH INDEPENDENT AUDITOR'S REPORT**

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**KNAU Radio – A Public Telecommunication Entity**  
**Operated by Northern Arizona University**  
Management's Discussion and Analysis

**Introduction**

The following Management's Discussion and Analysis (MD & A) provides an overview of the financial position and activities of KNAU as of and for the year ended June 30, 2008. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

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

**Balance Sheet**

The balance sheet presents a financial outline of KNAU's financial condition at the end of the fiscal year by reporting assets (current and non-current), liabilities (current and non-current), and net assets.

**Assets**

Total assets of the Station at the end of 2008 were \$1,366,485. Unrestricted cash was \$943,308 or 69% of total assets in 2008. Net receivables decreased \$9,602, 11%. Net capital assets decreased by 96,602 from \$336,411 to \$239,809 attributable to depreciation expense of \$96,602.

**Liabilities**

Total liabilities of the Station were \$141,765 and \$42,015 in 2008 and 2007 respectively. Accrued vacation was \$34,883 or 25% of total liabilities in 2008 and \$27,066 or 64% of total liabilities in 2007. Deferred revenue increased by \$86,453 in 2008, with \$76,000 attributable to Corporation for Public Broadcasting Digital Grants for adoption of HD radio. On October 21, 2008, KNAU voluntarily terminated the agreement.

**Net Assets**

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

**KNAU Radio – A Public Telecommunication Entity**  
**Operated by Northern Arizona University**  
**Management’s Discussion and Analysis**

Condensed Balance Sheets  
FY 2008 and 2007

	<u>2008</u>	<u>2007</u>
Assets:		
Current assets	\$ 1,109,045	\$ 908,450
Capital assets, net	<u>257,440</u>	<u>353,316</u>
Total Assets	<u>\$ 1,366,485</u>	<u>\$ 1,261,766</u>
Liabilities:		
Current liabilities	\$ 141,765	\$ 42,015
Total Liabilities	<u>\$ 141,765</u>	<u>\$ 42,015</u>
Net Assets:		
Invested in capital assets	\$ 239,809	\$ 336,411
Restricted	91,867	14,471
Unrestricted	<u>893,044</u>	<u>868,869</u>
Total Net Assets	<u>\$ 1,224,720</u>	<u>\$ 1,219,751</u>
Total Liabilities and Net Assets	<u>\$ 1,366,485</u>	<u>\$ 1,261,766</u>

**Statements of Revenues, Expenses and Changes in Net Assets**

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

**Revenues**

Total operating revenues, which exclude University appropriations, of the Station for the fiscal years 2008 and 2007 were \$818,253 and \$811,374. The primary source of operating revenue was from underwriting. Underwriting revenue increased by 4% or \$17,733 in fiscal year 2008.

Operating revenues from grants and contracts totaled \$293,006 and 291,468 in 2008 and 2007 respectively. Grant and contract revenues related to non-exchange type agreements are classified as operating revenue. In a non-exchange agreement, the Station receives dollars from another party without directly giving a service or product of equal value in exchange.

The Station received \$471,738 and \$446,75 in 2008 and 2007 of University appropriation, an increase of \$24,993, due to filling of staff vacancy and increases in employee benefits. The Station received \$469,042 and \$424,486 in 2008 and 2007 in subscriptions and memberships, and increase of \$44,556 or 10%. Bequests and restricted major gifts received were \$124,797 in 2008, with none received in 2007.

**KNAU Radio – A Public Telecommunication Entity**  
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**Expenses**

Total operating expenses of the Station for the fiscal year were \$2,205,327 and \$2,096,893 for 2008 and 2007. Total program services were \$1,208,517 and \$1,205,991 for 2008 and 2007 respectively. Depreciation expense totaled \$96,602 and \$84,267 for 2008 and 2007. The management agreement with KAWC Radio, Western Arizona College of Yuma, Arizona, was terminated effective June 30, 2007. Revenues attributable to the agreement were \$0 and \$85,551 in 2008 and 2007 respectively.

**Condensed Statement of Revenues, Expenses and Changes in Net Assets**

	<u>2008</u>	<u>2007</u>
Operating Revenues		
Underwriting	\$ 488,344	\$ 470,611
In-kind contributions	36,903	49,295
Grants and contracts	<u>293,006</u>	<u>291,468</u>
Total Operating Revenues	<u>\$ 818,253</u>	<u>\$ 811,374</u>
Operating Expenses		
Program services	\$ 1,208,517	\$ 1,205,991
Supporting services	<u>996,810</u>	<u>890,902</u>
Total Operating Expenses	<u>2,205,327</u>	<u>2,096,893</u>
Operating Loss	<u>\$(1,387,074)</u>	<u>\$(1,285,519)</u>
Non-Operating Revenues		
General appropriation from NAU	\$ 471,738	\$ 446,745
Donated facilities and admin support	318,714	282,963
Subscriptions and membership	469,042	424,486
Bequests and restricted major gifts	124,797	-
Other non-operating revenue	<u>7,752</u>	<u>185,352</u>
Total non-operating revenues	<u>\$ 1,392,043</u>	<u>\$ 1,339,546</u>
Increase (Decrease) in net assets	\$ 4,969	\$ 54,027
Net Assets – Beginning of year	<u>\$ 1,219,751</u>	<u>\$ 1,165,724</u>
Net Assets – End of year	<u>\$ 1,224,720</u>	<u>\$ 1,219,751</u>

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**KNAU Radio – A Public Telecommunication Entity  
Operated by Northern Arizona University  
Management’s Discussion and Analysis**

**Statement of Cash Flows**

The Statement of Cash Flows provides a summary of the sources and uses of cash by category. The primary purpose of the Statement of Cash Flows is to provide information about the Station’s cash receipts and payments during the year and to help assess the Station’s ability to generate future net cash flows and meet future obligations.

**Economic Factors That Will Affect the Future**

Overall KNAU’s financial position is relatively strong but given the precarious state of the economy, KNAU must continue to be watchful and react to external financial developments.

- Revenue from Northern Arizona University is uncertain.
- Membership revenue is increasing.
- Underwriting revenue reflects the widespread downturn in media advertising.
- Major gifts of amounts \$1,000 and above and planned giving are increasing.
- Cash reserves provide short term solutions to budget cuts.

Although KNAU will continue to receive funding from NAU, it is almost certain that University appropriations to the radio station will be reduced. KNAU will likely to be cut by ten to twenty percent in FY 2009 with further reduction possible in FY 2010. Any 2009 appropriation reductions to KNAU would result in permanent reduction of the University’s base appropriation. University finances are primarily driven by the financial health of the State of Arizona and University enrollment. While enrollment is healthy, the State of Arizona is expected to have a \$1.3 billion deficit in FY 2009 with a \$3 billion deficit projected in FY 2010. The deficits are primarily attributable to a downturn in sales tax revenue. The station will continue to monitor the State and University’s economic condition.

Revenue from membership is a reflection of the size of the listening audience and the personal importance of the programming to listeners. The independent survey of radio listening in the Flagstaff – Prescott market conducted by Arbitron continues to show widespread use of KNAU with the station ranking among the top four stations. Listener contributions increased in fiscal year 2008 with a plus 13.7% change from the previous year. The Station’s initial FY 09 on-air pledge drive established a record high of dollars pledged. As news events such as the economy, foreign affairs, and the new Administration continue to command public attention, KNAU’s news and information should maintain a healthy audience.

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**KNAU Radio – A Public Telecommunication Entity**  
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Management's Discussion and Analysis

**Economic Factors That Will Affect the Future (Continued)**

Station program underwriting increased 3.75% percent in fiscal year 2008. The forecast for FY 2009 is not optimistic. Radio spot sales are down nationwide as companies reduce their advertising budgets. In calendar year 2008 KNAU underwriting billings were on budget but expected to decline in the third and fourth quarters in response to increased contract cancellations.

Station cash reserves continued to grow in FY 2008. At the end of the fiscal year the radio station had more than \$700,000 in non interest bearing reserves deposited in a NAU Foundation account. The cash reserves insulate KNAU from short term financial emergencies. If necessary, KNAU planned to draw approximately 15 percent from the reserves in FY 2009. Rather than deplete the reserves, the station has taken cost reduction measures, such as reduction in staff and limited out of state travel, to ensure long term financial viability.

KNAU continues to operate a fundraising organization ("The RadioActives") comprised of community leaders. The group coordinated numerous activities in calendar year 2008, which coincided with the station's 25<sup>th</sup> anniversary. The group assists the station in raising funds from major donors. For instance, KNAU's restricted gift from Cellular One to fund satellite interconnection of the Arizona Public Radio network resulted from a contact provided by a RadioActive. Major gifts of \$1,000+ increased significantly in calendar 2008 as the result of RadioActivity and KNAU's participation in public radio's Major Giving Initiative.

KNAU is making several infrastructure improvements in FY 2009 that could result in improved service and increased revenue. The Station has received grants from the Corporation for Public Broadcasting to convert its KPUB Flagstaff signal to digital broadcasting. A donor is funding more reliable network interconnection through the Public Radio Satellite System. KNAU has opportunity to expand its reach, listenership and revenue through potential new FCC authorizations pending from FCC Auction No. 83 (2003) and the FCC NCE (Non-Commercial Educational) filing window of October 2007.

# LOREN CUNNINGHAM, CPA, PLLC

2200 EAST CEDAR AVENUE  
SUITE 5  
FLAGSTAFF, AZ 86004

TELEPHONE (928) 526-8442  
FAX (928) 527-0976

## Independent Auditor's Report

### The Arizona Board of Regents and Management of KNAU Radio

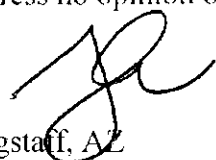
I have audited the accompanying financial statements of KNAU Radio (KNAU), a Public Telecommunications Entity operated by Northern Arizona University, as of and for the year ended June 30, 2008 and 2007, as listed in the table of contents. These financial statements are the responsibility of KNAU's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform my audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audits provide a reasonable basis for my opinion.

As discussed in Note 2(a), the financial statements of KNAU are intended to present the financial position, and the changes in financial position and cash flows, of only that portion of the business-type activities of Northern Arizona University that is attributable to the transactions of KNAU. They do not purport to, and do not, present fairly the financial position of Northern Arizona University as of June 30, 2008 and 2007, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of KNAU as of June 30, 2008 and 2007, and its changes in financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages i through v is not a required part of these basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consist principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.



Flagstaff, AZ  
December 12, 2008

**KNAU PUBLIC RADIO - A PUBLIC TELECOMMUNICATIONS ENTITY  
OPERATED BY NORTHERN ARIZONA UNIVERSITY  
STATEMENTS OF NET ASSETS  
JUNE 30, 2008 and 2007**

ASSETS	2008	2007
Current Assets		
Cash and Cash Equivalents	\$ 943,308	\$ 809,412
Restricted Cash	77,396	
Accounts Receivable, Net	80,555	90,157
Other Current Assets	7,786	8,881
Total Current Assets	1,109,045	908,450
Non-Current Assets		
Capital Assets, Net	239,809	336,411
Restricted Investments	17,631	16,905
Total Non-Current Assets	257,440	353,316
Total Assets	\$ 1,366,485	\$ 1,261,766
 LIABILITIES		
Current Liabilities		
Accounts Payable	\$ 9,710	\$ 4,230
Accrued Vacation	34,883	27,066
Deferred Revenue	97,172	10,719
Total Liabilities	141,765	42,015
 NET ASSETS		
Invested in Capital Assets	239,809	336,411
Restricted		
Nonexpendable	14,471	14,471
Expendable		
Operations	77,396	
Unrestricted	893,044	868,869
Total Net Assets	1,224,720	1,219,751
Total Liabilities & Net Assets	\$ 1,366,485	\$ 1,261,766

See accompanying notes and auditor's report.

**KNAU PUBLIC RADIO - A PUBLIC TELECOMMUNICATIONS ENTITY  
OPERATED BY NORTHERN ARIZONA UNIVERSITY  
STATEMENT OF REVENUES, EXPENSES & CHANGES IN NET ASSETS  
FOR THE YEARS ENDED JUNE 30, 2008 and 2007**

	2008	2007
<b>REVENUES</b>		
Operating Revenues		
Underwriting	\$ 488,344	\$ 470,611
In-kind Contributions	36,903	49,295
Grants and Contracts	293,006	291,468
Total Operating Revenue	818,253	811,374
<b>EXPENSES</b>		
Operating Expenses		
Program Services		
Programming and Production	934,218	900,866
Broadcasting	273,237	216,027
Public Radio Station Assistance	1,062	89,098
Total Program Services	1,208,517	1,205,991
Supporting Services		
Management and General	567,951	510,893
Fundraising	218,431	170,007
Underwriting	210,428	210,002
Total Supporting Services	996,810	890,902
Total Operating Expenses	2,205,327	2,096,893
Operating Loss	(1,387,074)	(1,285,519)
<b>NON-OPERATING REVENUES</b>		
General Appropriation from Northern Arizona University	471,738	446,745
Donated Facilities and Administrative Support from NAU	318,714	282,963
Subscriptions and Memberships	469,042	424,486
Bequests and Restricted Major Gifts	124,797	
Other Income	7,752	185,352
Total Non-Operating Revenues	1,392,043	1,339,546
Increase in Net Assets	4,969	54,027
Net Assets - Beginning of Year	1,219,751	1,165,724
Net Assets - End of the Year	\$ 1,224,720	\$ 1,219,751

See accompanying notes and auditor's report.

**KNAU PUBLIC RADIO - A PUBLIC TELECOMMUNICATIONS ENTITY  
OPERATED BY NORTHERN ARIZONA UNIVERSITY  
STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Underwriting	\$ 490,912	\$ 479,900
Grants and Contracts	385,277	311,253
Payments to Employees	(952,581)	(924,719)
Payments to Suppliers	(786,135)	(788,355)
	<u>(862,527)</u>	<u>(921,921)</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
General Appropriation from Northern Arizona University	471,738	446,745
Subscriptions and Memberships	470,259	425,229
Bequests and Restricted Major Gifts	124,797	
Increase in Restricted Investments	(726)	
Other Income	7,752	114,360
	<u>1,073,820</u>	<u>986,334</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of Capital Assets	-	(53,858)
Sale of Capital Assets	-	72,817
	<u>-</u>	<u>18,959</u>
Net Cash Used by Capital and Related Financing Activities	-	18,959
Net Increase (Decrease) in Cash and Cash Equivalents	211,293	83,372
Cash and Cash Equivalents - Beginning of Year	809,411	726,039
Cash and Cash Equivalents - End of Year	<u>\$ 1,020,704</u>	<u>\$ 809,411</u>
<b>RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>		
Operating Loss	\$ (1,387,074)	\$ (1,285,519)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities		
Donated Facilities and Administration Support	318,714	282,963
Donated Vehicle	-	(26,334)
Depreciation Expense	96,602	84,267
Change in Assets and Liabilities		
Accounts Receivable, Net	8,386	30,230
Other Current Assets	1,095	(1,559)
Accounts Payable	5,480	761
Accrued Vacation	7,817	(5,573)
Deferred Revenue	86,453	(1,157)
	<u>\$ (862,527)</u>	<u>\$ (921,921)</u>
<b>SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITIES:</b>		
Donated Facilities and Administrative Support	<u>\$ 318,714</u>	<u>\$ 283,849</u>
In-kind Contributions	<u>\$ 36,903</u>	<u>\$ 49,295</u>

See accompanying notes and auditor's report.

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**KNAU Radio**  
**A Public Telecommunication Entity Operated by Northern Arizona University**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008 and 2007**

Note 1 - Organization and Nature of Activities

KNAU Radio (KNAU) is a non-commercial, educational radio station operated by Northern Arizona University in Flagstaff, Arizona, under a license granted by the Federal Communications Commission. KNAU's licensee is the Arizona Board of Regents acting for and on behalf of Northern Arizona University (the University). KNAU's mission is to be a trusted source of information, music and entertainment for rural Arizona through radio and other media.

Note 2 - Summary of Significant Accounting Principles

*Financial Statement Presentation*

The accounting policies of KNAU conform to accounting principles generally accepted in the United States of America applicable to public institutions of higher education engaged only in business-type activities adopted by the Governmental Accounting Standards Board (GASB).

The financial statements of KNAU include all funds for which KNAU has oversight responsibility. Fiscal responsibility for KNAU remains with the University; therefore, KNAU is considered part of the reporting entity for the University's reporting process.

*Basis of Accounting*

KNAU is engaged only in business-type activities. Accordingly, KNAU's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. The general appropriation from the University is recorded when expended. Grants and donations are recognized as revenue as soon as all eligibility requirements imposed by the provider are met. In-kind contributions, other than the contribution from the University, are recognized as revenue at the estimated fair market value at the date of gift. The portion of the University's indirect costs attributable to KNAU's operations and the value of space provided to KNAU by the University are included as revenues and expenses, and are computed in accordance with guidelines established by the Corporation for Public Broadcasting which is consistent with generally accepted accounting principles.

KNAU follows Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989; Accounting Principles Board Opinions; and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

The financial statements include a statement of net assets; a statement of revenues, expenses and changes in net assets; and a statement of cash flows.

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**KNAU Radio**  
**A Public Telecommunication Entity Operated by Northern Arizona University**  
**NOTES TO FINANCIAL STATEMENTS - Continued**  
**JUNE 30, 2008 and 2007**

Note 2 - Summary of Significant Accounting Principles - Continued

The statement of net assets provides information about the assets, liabilities, and net assets of KNAU at the end of the year. Assets and liabilities are classified as either current or noncurrent. Net assets are classified according to external donor restrictions. Invested in capital assets net of related debt, represents the value of capital assets, net of accumulated depreciation, less any outstanding debt incurred to acquire or construct the assets. Nonexpendable restricted net assets are gifts that have been received for endowment purposes, the corpus of which cannot be expended. Expendable restricted net assets represent grants, contracts, gifts and other resources that have been externally restricted for specific purposes. Unrestricted net assets include all other assets.

The statement of revenues, expenses, and changes in net assets provides information about KNAU's financial activities during the year. Revenues and expenses are classified as either operating or nonoperating, and all changes in net assets are reported, including capital contributions and additions to endowments. Generally, revenues generated by KNAU for programming and production and broadcasting are considered to be operating revenues. Other revenues used for KNAU, such as the appropriation from the University, are not generated from operations and are considered to be nonoperating revenues.

The statement of cash flows provides information about KNAU's sources and uses of cash and cash equivalents during the year. Increases and decreases in cash and cash equivalents are classified as operating, noncapital financing, capital financing and investing activities.

KNAU has both restricted and unrestricted resources available for its operations. When both restricted and unrestricted resources are available for use, restricted resources are used first.

*Cash and Cash Equivalents*

For administrative purposes, cash balances of KNAU are commingled in bank accounts maintained by the University or by the Northern Arizona University Foundation (the Foundation). For purposes of the statement of cash flows, all highly liquid investments with an original maturity of three months or less to be cash and cash equivalents and are stated at fair value.

The University and the Foundation currently use commercial banks as depositories. Deposits with commercial banks are covered by Federal depository insurance of \$100,000. Any cash balances held by the University in excess of Federal depository insurance are collateralized by United States government obligations held by the counter party's agent in the agent's account with the Federal Reserve in the University's name.

**KNAU Radio**  
**A Public Telecommunication Entity Operated by Northern Arizona University**  
**NOTES TO FINANCIAL STATEMENTS - Continued**  
**JUNE 30, 2008 and 2007**

Note 2 - Summary of Significant Accounting Principles - Continued

*Accounts Receivable*

Accounts receivable primarily consist of business underwriting activities, and pledges receivable. An allowance for uncollectible accounts is provided based on past history and management's judgment of potential uncollectible amounts.

*Capital Assets*

Capital assets are stated at cost or fair value at the date of donation and are depreciated using the straight-line method over the assets useful lives. KNAU capitalizes all assets purchased with a cost of \$2,500 or more. The following useful lives are used in computing depreciation expense:

	<u>Useful Life</u>
Broadcast and Programming Equipment	7-10 years
Computers and Office Equipment	5-8 years
Vehicles	3 years
Leasehold Improvements	10-20 years

*Deferred Revenue*

Deferred revenue consists of amounts received from granting agencies which had yet to be expended in accordance with the grant agreements and underwriting sponsors which have not yet been earned under the terms of the agreement.

Note 3 - Accounts Receivable

Accounts receivable at June 30, 2008 and 2007 is comprised of the following:

	<u>2008</u>	<u>2007</u>
Underwriting	\$ 61,616	\$ 56,792
Pledges	27,903	28,626
Other	5,000	21,271
Subtotal of Accounts Receivable	94,519	106,689
Allowance for Uncollectible Amounts	(13,965)	(16,532)
Total Accounts Receivable	\$ 80,554	\$ 90,157

**KNAU Radio**  
**A Public Telecommunication Entity Operated by Northern Arizona University**  
**NOTES TO FINANCIAL STATEMENTS - Continued**  
**JUNE 30, 2008 and 2007**

Note 4 - Capital Assets

Capital assets activity for the year ended June 30, 2008 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Ending Balance</u>
Broadcast and Programming				
Equipment	\$ 905,263	\$ -0-	\$ -0-	\$ 905,263
Computers and Office Equipment	91,941	-0-	-0-	91,941
Vehicles	32,334	-0-	-0-	32,334
Leasehold Improvements	<u>230,000</u>	<u>-0-</u>	<u>-0-</u>	<u>230,000</u>
	1,259,538	-0-	-0-	1,259,538
Accumulated Depreciation (923,126)	<u>(923,126)</u>	<u>(96,602)</u>	<u>-0-</u>	<u>(1,019,728)</u>
Capital Assets, Net	<u>\$ 336,411</u>	<u>\$ (96,602)</u>	<u>\$ -0-</u>	<u>\$ 239,809</u>

Capital assets activity for the year ended June 30, 2007 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Ending Balance</u>
Broadcast and Programming				
Equipment	\$ 890,249	\$ 53,858	\$ (38,844)	\$ 905,263
Computers and Office Equipment	129,614	-0-	(37,673)	91,941
Vehicles	6,000	26,334	-0-	32,334
Leasehold Improvements	<u>230,000</u>	<u>-0-</u>	<u>-0-</u>	<u>230,000</u>
	1,255,863	80,192	(76,517)	1,259,538
Accumulated Depreciation	<u>(915,377)</u>	<u>(76,519)</u>	<u>84,267</u>	<u>(923,126)</u>
Capital Assets, Net	<u>\$ 340,486</u>	<u>\$ 3,673</u>	<u>\$ (7,750)</u>	<u>\$ 336,411</u>

Depreciation expense is charged to its appropriated functional classification based on estimated percentage of the use of the related assets. For the years ended June 30, 2008 and 2007, the allocation of depreciation expense to functional classification was as follows:

	<u>2008</u>	<u>2007</u>
Programming and Production	\$ 39,607	\$ 34,549
Broadcasting	39,607	34,549
Underwriting and Grant Support	4,830	4,213
Fundraising	3,864	3,372
Management and General	<u>8,694</u>	<u>7,584</u>
Total Depreciation Expense	<u>\$ 96,602</u>	<u>\$ 84,267</u>

**KNAU Radio**  
**A Public Telecommunication Entity Operated by Northern Arizona University**  
**NOTES TO FINANCIAL STATEMENTS - Continued**  
**JUNE 30, 2008 and 2007**

Note 5 – Restricted Cash

Restricted cash at June 30, 2008, consisted of temporarily restricted donations received which had yet to be expended in accordance with the donor's wishes.

Note 6 – Deferred Revenue

Deferred revenue at June 30, 2008 and 2007 consisted of amounts received from granting agencies which had yet to be expended in accordance with the grant agreements and revenues from underwriting sponsors which have not yet been earned under the terms of the agreement. Detail of deferred revenue at June 30, 2008, and 2007, respectively, was as follows

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Deferred Grant Revenue	\$ 76,000	\$ 0
Deferred Sponsorship Revenue	<u>21,172</u>	<u>10,719</u>
Total Deferred Revenue	<u>\$ 97,172</u>	<u>\$ 10,719</u>

Note 7 - Donated Facilities and Administrative Support

Donated facilities and administrative support from the University totaled \$318,714 for the year ended June 30, 2008 and is comprised of donated office and studio space and costs for institutional support and physical plant operations. Donated office and studio space of \$13,258 and is based on the historical cost of facilities used by KNAU, depreciated over the useful life of 20 years. Donated costs for institutional support was \$282,158. Donated costs for physical plant operations were \$23,298. These costs are allocated financial costs incurred by the University on behalf of KNAU. These amounts are recorded in the accompanying statement of revenues, expenses, and changes in net assets as revenue and expenses and were calculated based on Corporation for Public Broadcasting guidelines, which is consistent with generally accepted accounting principles.

Donated facilities and administrative support from the University totaled \$283,849 for the year ended June 30, 2007 and is comprised of donated office and studio space and costs for institutional support and physical plant operations. Donated office and studio space of \$13,258 and is based on the historical cost of facilities used by KNAU, depreciated over the useful life of 20 years. Donated costs for institutional support was \$250,415. Donated costs for physical plant operations were \$20,176. These costs are allocated financial costs incurred by the University on behalf of KNAU. These amounts are recorded in the accompanying statement of revenues, expenses, and changes in net assets as revenue and expenses and were calculated based on Corporation for Public Broadcasting guidelines, which is consistent with generally accepted accounting principles.

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Note 8 – Pension Plan

All KNAU employees are employees of the University and participate in the University retirement programs. KNAU’s administrative officers have the option to participate in defined contribution pension plans. These plans are administered by independent insurance and annuity companies approved by the Arizona Board of Regents. All other KNAU employees are required to participate in the Arizona State Retirement System, which is a cost-sharing multiple-employer defined benefit pension plan. The costs of the retirement programs are allocated to KNAU on a percentage basis and charged to the appropriated functional classification. The required employee contribution rate was 7.4% in fiscal year 2007. Retirement plan contributions for the years ended June 30, 2008, and 2007 were \$48,334 and \$45,843, respectively.

Note 9 - Leases

KNAU has entered into non-cancelable lease agreements for towers used to transmit KNAU’s programs. The lease agreements expire through October 31, 2007. In addition, KNAU has various cancelable and month-to-month leases. For the years ended June 30, 2008, and 2007, rent expense was \$42,282 and \$42,958, respectively. The future minimum lease payments under all non-cancelable agreements are as follows:

Fiscal year ended June 30, 2009      \$ 3,740

Note 10 - Advertising

The organization expenses direct advertising costs as incurred. Advertising and promotion expense for the years ended June 30, 2008 and 2007 was \$27,783 and 15,648, respectively.

Note 11 – In-Kind Donations

The organization receives significant support in the form of in-kind donations. In accordance with generally accepted accounting principles, in-kind donations are reflected at their estimated fair values in the statement of activities and changes in net assets. Detail of in-kind donations for the years ended June 30, 2008 and 2007 is as follows:

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Donated Sponsorships, In-Kind	\$ 26,600	\$ 7,689
Donated Lodging	3,411	3,672
Donated Equipment, In-Kind	-0-	26,334
Donated Supplies, In-Kind	<u>5,092</u>	<u>11,600</u>
Total In-Kind	<u>\$ 35,103</u>	<u>\$ 49,295</u>

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Note 12 - Economic Dependency

KNAU is economically dependent on appropriations from the State of Arizona and the annual grants from the Corporation for Public Broadcasting in order to continue services at current levels. A decline in funding from the State or the Corporation for Public Broadcasting could significantly effect the operations of KNAU.