

**KNAU – A PUBLIC TELECOMMUNICATIONS ENTITY**

**OPERATED BY NORTHERN ARIZONA UNIVERSITY**

**FINANCIAL STATEMENTS**

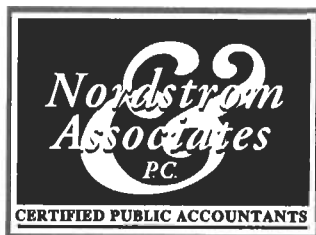
**JUNE 30, 2006 AND 2005**

**KNAU – A PUBLIC TELECOMMUNICATIONS ENTITY  
OPERATED BY NORTHERN ARIZONA UNIVERSITY  
FINANCIAL STATEMENTS  
JUNE 30, 2006 AND 2005**

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## Independent Auditors' Report

The Arizona Board of Regents and  
Management of KNAU Radio

We have audited the accompanying financial statements of KNAU Radio (KNAU), a Public Telecommunications Entity operated by Northern Arizona University, as of and for the years ended June 30, 2006 and 2005, as listed in the table of contents. These financial statements are the responsibility of KNAU's management. 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 our audits 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. We believe that our audits provide a reasonable basis for our 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, 2006 and 2005, 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 our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of KNAU as of June 30, 2006 and 2005, and its changes in financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 through 6 is not a required part of the 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 inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*Nordstrom & Associates, P.C.*

December 20, 2006

**KNAU RADIO – A PUBLIC TELECOMMUNICATIONS ENTITY**  
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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, 2006, with comparative information as of and for the year ended June 30, 2005. 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 and 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.

**Statement of Net Assets**

The statement of net assets presents a financial picture 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. The difference between total assets and total liabilities is net assets and is one indicator of the current financial condition of the Station, while the change in net assets is an indicator of whether the overall financial condition has improved or worsened during the year. Assets and liabilities are generally measured using current values, except for capital assets, which are stated at historical cost less an allowance for depreciation. A summarized comparison of the Station’s assets, liabilities, and net assets at June 30, 2006 and 2005 follows:

	2006	2005
Assets:		
Current assets	\$ 856,972	\$ 837,371
Capital assets, net	340,486	379,147
Other assets	<u>16,250</u>	<u>15,610</u>
Total Assets	\$ 1,213,708	\$ 1,232,128
Liabilities:		
Current liabilities	<u>\$ 47,984</u>	<u>\$ 49,218</u>
Net Assets:		
Invested in capital assets	\$ 340,486	\$ 379,147
Restricted	14,471	46,091
Unrestricted	<u>810,767</u>	<u>757,672</u>
Total net assets	<u>\$ 1,165,724</u>	<u>\$ 1,185,910</u>

**Assets**

Total assets of the Station at the end of 2006 and 2005 were \$1,213,708 and \$1,232,128 respectively. Unrestricted cash was \$726,039 or 60% of total assets in 2006 and \$709,329 or 58% of total assets in 2005. Net receivables increased from \$90,695 in 2005 to \$123,611 in 2006 for an increase of 36%. Net capital assets decreased by \$38,661 from \$379,147 to \$340,486 attributable to depreciation expense of \$84,869 and \$46,208 in capital asset additions.

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**Liabilities**

Total liabilities of the Station were \$47,984 and \$49,218 in 2006 and 2005 respectively. Accrued vacation was \$32,639 or 68% of total liabilities in 2006 and \$33,688, also 68% of total liabilities in 2005.

**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 a donor or external entity. The third category is unrestricted net assets.

**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 (operating and non-operating) paid and owed by the Station and income or loss from operations for the current fiscal year. A comparison of the Station's revenues, expenses, and changes in net assets for the years ended June 30, 2006 and 2005 follows:

	<b>2006</b>	<b>2005</b>
Operating revenues		
Underwriting	\$ 505,422	\$ 471,252
In-kind contributions	53,175	35,305
Grants and contracts	<u>304,229</u>	<u>321,204</u>
Total operating revenue	862,826	827,761
Operating Expenses		
Program services	1,122,000	1,114,418
Supporting services	<u>909,725</u>	<u>902,171</u>
Total operating expenses	<u>2,031,725</u>	<u>2,016,589</u>
Operating loss	<u>(1,194,710)</u>	<u>(1,200,055)</u>
Non-operating revenues		
General appropriation from NAU	431,242	409,915
Donated facilities and admin support	278,124	261,259
Subscriptions and membership	392,444	375,796
Other non-operating revenue	<u>49,903</u>	<u>25,473</u>
Total non-operating revenues	<u>1,151,713</u>	<u>1,072,443</u>
Decrease in net assets	(17,186)	(116,385)
Net assets – beginning of year	<u>1,182,910</u>	<u>1,299,295</u>
Net assets – end of year	<u>\$ 1,165,724</u>	<u>\$ 1,182,910</u>

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**Revenues**

Total operating revenues, which exclude University appropriations, of the Station for the fiscal years 2006 and 2005 were \$862,826 and \$827,761. The primary source of operating revenue was from underwriting. Underwriting revenue increased by 7.3% or \$34,170 in fiscal year 2006.

Operating revenues from grants and contracts totaled \$304,229 and \$321,204 in 2006 and 2005 respectively. Grant and contract revenues related to non-exchange type agreements are classified as operating revenues. 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 \$431,242 and \$409,915 in 2006 and 2005 of University appropriation, an increase of \$21,327. The Station received \$392,444 and \$375,796 in 2006 and 2005 in subscriptions and memberships, an increase of \$16,648 or 4.4%.

**Expenses**

Total operating expenses of the Station for the fiscal year were \$ 2,031,725 and \$2,016,589 for 2006 and 2005. Total program services were \$1,122,000 and \$1,114,418 for 2006 and 2005 respectively. Depreciation expense totaled \$84,869 and \$96,551 for 2006 and 2005. In response to declining revenues during 2005, the station concentrated on decreasing expenses through staff reduction, both temporary and permanent, resulting in a reduction in salaries and related expenditures of \$63,964 in 2006 over 2005. Expenditures of \$45,050 in program services were incurred due to a management agreement with KAWC, Western Arizona College of Yuma, Arizona. Revenues attributable to the agreement were \$42,500.

**Statement of Cash Flows**

The Statement of Cash Flows provides a summary of the sources and uses of cash by categories. The primary purpose of the Statement of Cash Flows are 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 strong. Revenue from Northern Arizona University is stable; program underwriting and membership are increasing, as are cash reserves.

Revenue appropriations from Northern Arizona University have stabilized. University finances are primarily driven by the financial health of the State of Arizona and University enrollment. State of Arizona government is now generating a financial surplus and the University’s enrollment is increasing. The Station will continue to monitor the University’s economic condition.

Station program underwriting increased 7.3% in fiscal year 2006, compared to a 3.7% increase from fiscal year 2005. The station has taken steps to further strengthen underwriting by hiring a full time underwriting sales manager.

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**Economic Factors That Will Affect the Future, Continued**

Revenue from membership such as listener contributions increased in fiscal year 2006 with a 4.4% increase from the previous year. Signal expansion should positively affect fiscal year 2007 membership revenue.

In fiscal year 2007 the station expects grant funding from the Corporation for Public Broadcasting to decrease by approximately \$30,000 while national programming costs are increasing by another \$30,000. The station plans to meet these challenges through increases in member support and expenditure control.

The station has cash reserves that are the equivalent of 45% of annual cash operating expenses. Cash reserves could fund the station for more than five months.

KNAU continues to operate RadioActives, a fundraising support group comprised of community leaders. The group coordinated several activities in fiscal year 2006. They are poised to assist the station raise funds from major donors.

KNAU possesses valuable FM translator construction permits issued by the Federal Communications Commission. The permits authorize the Station to construct additional transmitters serving the populated areas of Prescott, Cottonwood, Payson, and Page, Arizona. The transmitters are being constructed and will be made operational in fiscal year 2007. The expanded service could result in additional membership and underwriting support. In fiscal year 2006 KNAU increased the power of its transmitter in Kingman, AZ, a rapidly growing city. In fiscal year 2007 the Station sold excess FM translator construction permit capacity for approximately \$70,000.

KNAU made financial investments this past fiscal year in market research, signal expansion, and website service. It also reduced expenses by reducing the number of employees. These actions all help position for increased revenue in fiscal year 2007.

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Statements of Net Assets

June 30, 2006 and 2005

<b>ASSETS</b>	<u>2006</u>	<u>2005</u>
Current assets:		
Cash and cash equivalents	\$ 726,039	\$ 709,329
Restricted cash	-	31,996
Accounts receivable, net	123,611	90,695
Other current assets	<u>7,322</u>	<u>5,351</u>
Total current assets	<u>856,972</u>	<u>837,371</u>
Noncurrent assets:		
Capital assets, net	340,486	379,147
Restricted investments	<u>16,250</u>	<u>15,610</u>
Total noncurrent assets	<u>356,736</u>	<u>394,757</u>
Total assets	<u>\$ 1,213,708</u>	<u>\$ 1,232,128</u>
 <b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	\$ 3,469	\$ 9,005
Accrued vacation	32,639	33,688
Deferred revenue	<u>11,876</u>	<u>6,525</u>
Total liabilities	<u>47,984</u>	<u>49,218</u>
 <b>NET ASSETS</b>		
Invested in capital assets	340,486	379,147
Restricted		
Nonexpendable	14,471	14,439
Expendable:		
Programming and production	-	31,652
Unrestricted	<u>810,767</u>	<u>757,672</u>
Total net assets	<u>1,165,724</u>	<u>1,182,910</u>
Total liabilities and net assets	<u>\$ 1,213,708</u>	<u>\$ 1,232,128</u>

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Statements of Revenues, Expenses, and Changes in Net Assets

For the Years Ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<b>REVENUES</b>		
Operating Revenues:		
Underwriting	\$ 505,422	\$ 471,252
In-kind contributions	53,175	35,305
Grants and contracts	304,229	321,204
Total Operating Revenues	<u>862,826</u>	<u>827,761</u>
<b>EXPENSES</b>		
Operating expenses:		
Program services:		
Programming and production	916,039	912,262
Broadcasting	160,911	202,156
Public radio station assistance	45,050	-
Total program services	<u>1,122,000</u>	<u>1,114,418</u>
Supporting services:		
Management and general	498,884	488,577
Fundraising	175,884	137,850
Underwriting	234,957	275,744
Total supporting services	<u>909,725</u>	<u>902,171</u>
Total Operating Expenses	<u>2,031,725</u>	<u>2,016,589</u>
Operating Loss	(1,168,899)	(1,188,828)
<b>NONOPERATING REVENUES</b>		
General appropriation from Northern Arizona University	431,242	409,915
Donated facilities and administrative support from NAU	278,124	261,259
Subscriptions and memberships	392,444	375,796
Other income	49,903	25,473
Total Nonoperating Revenues	<u>1,151,713</u>	<u>1,072,443</u>
Decrease in Net Assets	(17,186)	(116,385)
Net Assets - Beginning of Year	<u>1,182,910</u>	<u>1,299,295</u>
Net Assets- End of Year	\$ <u><u>1,165,724</u></u>	\$ <u><u>1,182,910</u></u>

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Statements of Cash Flows

For the Years Ended June 30, 2006 and 2005

	<b>2006</b>	<b>2005</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Underwriting	\$ 508,646	\$ 465,875
Grants and contracts	322,020	342,667
Payments to employees	(870,436)	(939,941)
Payments to suppliers	(753,677)	(677,604)
Net cash used by operating activities	(793,447)	(809,003)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
General appropriation from Northern Arizona University	431,242	409,915
Subscriptions and memberships	396,610	377,547
Other income	28,513	22,057
Net cash cash provided by noncapital financing activities	856,365	809,519
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of capital assets	(46,208)	(4,015)
Net cash used by capital and related financing activities	(46,208)	(4,015)
Net increase (decrease) in cash and cash equivalents	16,710	(3,499)
Cash and cash equivalents - beginning of year	709,329	712,828
Cash and cash equivalents - end of year	\$ 726,039	\$ 709,329
<b>RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:</b>		
Operating Loss	\$ (1,168,899)	\$ (1,188,828)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Donated facilities and administrative support	278,124	261,259
Depreciation expense	84,869	96,551
Change in assets and liabilities:		
Restricted cash	31,996	23,058
Accounts receivable, net	(16,332)	(2,639)
Other current assets	(1,971)	7,973
Accounts payable	(5,536)	4,545
Accrued vacation	(1,049)	(6,589)
Deferred revenue	5,351	(4,333)
Net cash used by operating activities	\$ (793,447)	\$ (809,003)

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Statements of Cash Flows

For the Years Ended June 30, 2006 and 2005

(continued)

	<u>2006</u>	<u>2005</u>
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES:</b>		
Donated facilities and administrative support	\$ <u>278,124</u>	\$ <u>261,259</u>
In-kind contributions	\$ <u>53,175</u>	\$ <u>35,305</u>

**KNAU RADIO – A PUBLIC TELECOMMUNICATIONS ENTITY  
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Notes to Financial Statements  
June 30, 2006 and 2005

**(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.

**(2) Summary of Significant Accounting Principles**

**(a) Financial Statement Presentation**

The accounting policies of KNAU conform to U.S. generally accepted accounting principles 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.

**(b) 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.

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 net assets.

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**(2) Summary of Significant Accounting Principles, continued**

**(b) Basis of Accounting, continued**

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.

**(c) Cash and Cash Equivalents**

For administrative purposes, cash balances of KNAU are included in bank accounts maintained by the University or by the Northern Arizona University Foundation (the Foundation). For purposes of the statement of cash flows, the University and the Foundation consider all highly liquid investments with an original maturity of three months or less to be cash equivalents and are stated at fair value. As of June 30, 2006, the University held \$153,552 of KNAU's cash balances and the Foundation held \$572,486. As of June 30, 2005, the University held \$236,375 of KNAU's cash balances and the Foundation held \$504,950.

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 U.S. Government obligations held by the counter party's agent in the agent's account with the Federal Reserve in the University's name. The Foundation may have cash balances in excess of the Federal depository insurance. However, due to the fact that the Foundation's cash is commingled, KNAU cannot determine the uninsured or uncollateralized portion of its balances held by the Foundation.

The June 30, 2005 restricted cash balances represent monies received from restricted grants that had not been used for the purpose stated in the grant agreements. There were no restricted cash balances at June 30, 2006.

**(d) Accounts Receivable**

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

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**(2) Summary of Significant Accounting Principles, continued**

**(e) 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:

	<b>Useful Life</b>
Broadcast and programming equipment	7-10 years
Computers and office equipment	5-8 years
Vehicles	3 years
Leasehold improvements	10-20 years

**(f) Restricted Investments**

The restricted investments balance consists of an endowed fund held and managed by the Northern Arizona University Foundation, Inc. (the Foundation) for the benefit of KNAU. The earnings on the endowment are to be used for carrying out the mission of KNAU. The balance is reported at fair market value, as reported to KNAU by the Foundation.

**(g) Deferred Revenue**

Deferred revenue consists of amounts received from grant and underwriting sponsors which have not yet been earned under the terms of the agreement.

**(h) Reclassifications**

Certain fiscal year 2005 balances have been reclassified to conform to the fiscal year 2006 financial statement presentation.

**(3) Accounts Receivable**

Accounts receivable at June 30, 2006 and 2005 is comprised of the following:

	<b>2006</b>	<b>2005</b>
Underwriting	\$ 70,797	\$ 68,259
Pledges	31,627	36,417
Grants	19,785	5,580
Other	23,750	3,000
	145,959	113,256
Allowance for uncollectible amounts	(22,348)	(22,561)
	\$ 123,611	\$ 90,695

The receivables arising from the underwriting billings are not collateralized. The underwriting receivables at June 30, 2006 included \$9,295 of receivables over 90 days past due.

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**(4) Capital Assets**

Capital asset activity for the year ended June 30, 2006 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Broadcast and programming equipment	\$ 844,041	\$ 46,208	\$ -	\$ 890,249
Computers and office equipment	129,614	-	-	129,614
Vehicles	13,000	-	(7,000)	6,000
Leasehold improvements	230,000	-	-	230,000
	<u>1,216,655</u>	<u>46,208</u>	<u>(7,000)</u>	<u>1,255,863</u>
Accumulated depreciation	<u>(837,508)</u>	<u>(84,869)</u>	<u>7,000</u>	<u>(915,377)</u>
Capital assets, net	<u>\$ 379,147</u>	<u>\$ (38,661)</u>	<u>\$ -</u>	<u>\$ 340,486</u>

Capital asset activity for the year ended June 30, 2005 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Broadcast and programming equipment	\$ 844,041	\$ -	\$ -	\$ 844,041
Computers and office equipment	125,599	4,015	-	129,614
Vehicles	13,000	-	-	13,000
Leasehold improvements	230,000	-	-	230,000
	<u>1,212,640</u>	<u>4,015</u>	<u>-</u>	<u>1,216,655</u>
Accumulated depreciation	<u>(740,957)</u>	<u>(96,551)</u>	<u>-</u>	<u>(837,508)</u>
Capital assets, net	<u>\$ 471,683</u>	<u>\$ (92,536)</u>	<u>\$ -</u>	<u>\$ 379,147</u>

Depreciation expense is charged to its appropriate functional classification based on estimated percentage of the use of the related assets. For the years ended June 30, 2006 and 2005, the allocation of depreciation expense to functional classifications was as follows:

	2006	2005
Programming and production	\$ 34,796	\$ 39,586
Broadcasting	34,796	39,586
Underwriting and grant support	4,243	4,828
Fundraising	3,396	3,861
Management and general	7,638	8,690
Total depreciation expense	<u>\$ 84,869</u>	<u>\$ 96,651</u>

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June 30, 2006 and 2005

**(5) Donated Facilities and Administrative Support**

Donated facilities and administrative support from the University totaled \$278,124 and \$261,259 for the years ended June 30, 2006 and 2005, respectively, and are comprised of donated office and studio space and costs for institutional support and physical plant operations. Donated office and studio space of \$13,258 for each of the years ended June 30, 2006 and 2005 is based on the historical cost of facilities used by KNAU, depreciated over a useful life of 20 years. Donated costs for institutional support were \$244,984 and \$227,778 for the years ended June 30, 2006 and 2005, respectively. Donated costs for physical plant operations were \$19,882 and \$20,223 for the years ended June 30, 2006 and 2005, respectively. 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.

**(6) Retirement 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 by employee and charged to the appropriate functional classification. The required employee contribution rate was 7.4% in fiscal year 2006 and 5.7% in fiscal year 2005. Retirement plan contributions for the years ended June 30, 2006 and 2005 were \$42,099 and \$41,897, respectively. The Arizona State Retirement System issues a publicly available annual financial report that includes its financial statements and required supplementary information. A report may be obtained by writing or calling ASRS, P.O. Box 33910, Phoenix AZ 85067-3910, phone number (800)621-3778.

**(7) Leases**

KNAU has entered into two non-cancelable lease agreements for towers used to transmit KNAU's programs. Subsequent to year-end, KNAU entered into another non-cancelable lease agreement for the tower located in Payson, Arizona. The lease agreements expire through October 31, 2007. In addition to the non-cancelable agreements discussed above, KNAU has various cancelable and month-to-month leases. For the years ended June 30, 2006 and 2005, rent expense was \$41,048 and \$40,694, respectively. The future minimum lease payments under the non-cancelable agreements are as follows:

Fiscal years ended June 30:	
2007	\$ 11,031
2008	<u>1,725</u>
	<u>\$ 12,756</u>

**(8) 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 service at current levels. A decline in funding from the State or the Corporation for Public Broadcasting could significantly effect the operations of KNAU.

**KNAU RADIO – A PUBLIC TELECOMMUNICATIONS ENTITY**  
**OPERATED BY NORTHERN ARIZONA UNIVERSITY**  
Notes to Financial Statements  
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**(9) Risk Management**

Risks of loss due to torts; theft of, damage to, and destruction of assets; errors or omissions; injuries to employees; and natural disasters are covered by the University's risk management program. The University participates in a self-insurance program administered by the state of Arizona, Department of Administration, Risk Management Section.

**(10) Related Party Transactions**

In the regular course of business, KNAU purchases various goods and services from University departments. Additionally, there are many expenses that are processed on a university-wide basis and allocated to KNAU, for example telephone and postal charges.