

THE KUAT COMMUNICATIONS GROUP
(A DIVISION OF THE UNIVERSITY OF ARIZONA)

FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULE
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

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A MESSAGE FROM THE GENERAL MANAGER

This has been a year of continued growth and opportunity for the KUAT Communications Group. While remaining focused on our mission as the public service media source for southern Arizona, new management continued a reorganization of resources around areas of core competencies, which has allowed KUAT to sustain the process begun last fiscal year of redefining itself. The organization remains committed to high quality, award-winning programming on the local, national and global level. New mission, vision and values statements were adopted by the organization and endorsed by its Public Advisory Board as a part of KUAT's participation in the Corporation for Public Broadcasting (CPB) Major Giving Initiative. "The KUAT Communications Group informs, inspires and connects our community by bringing people and ideas together."

A consolidation of content producers from our television, radio and multimedia departments, which began last year, continues to provide greater opportunities to capture and report stories for and about southern Arizona more broadly and efficiently. In addition to our nightly news magazine, *Arizona Illustrated*, and weekly bilingual public affairs series, *Reflexiones Domingo*, KUAT premiered the 17th season of the multi-Emmy Award-winning nature/travel/adventure series *The Desert Speaks*, with a special preview kick-off event for local supporters at the world-renowned Arizona-Sonora Desert Museum. The series was distributed to public television stations nationwide in HDTV. The station also produced a documentary and oral history project entitled *Tucson Remembers "The War Years,"* which provided Tucson veterans of WWII an opportunity to tell their respective stories. KUAT's cable television service, *The UA Channel*, featured numerous series and specials recorded on the campus of The University of Arizona, including presentations from Supreme Court Justices Sandra Day O'Connor and Ruth Bader Ginsburg to a live Gubernatorial Debate in partnership with the Associated Students of The University of Arizona, the Children's Action Alliance, and Cox Communications. Our multimedia department supported UA educational units in their work to provide distance-learning courses for students on and off campus.

KUAZ hosted the production team of popular National Public Radio (NPR) series, *Talk of the Nation* for a live national broadcast from The University of Arizona campus, one of only a handful of remote broadcast for this series that take place each year. Based on the success of the visit to Tucson, another *Talk of the Nation* remote broadcast from Tucson is planned for the near future.

Our commitment to education and literacy continues with *Ready to Learn*, our pre-school literacy initiative, and in partnership with *FirstBook*, thousands of books were provided to children who might not otherwise have books in their homes. To date, KUAT has distributed over 70,000 books to children in our area. The annual *Reading Rainbow Young Writers and Illustrators Contest* encouraged hundreds of early elementary school children to become budding young authors. New this year, was a *Children's Holiday Card Contest*, which enlisted children who were hospitalized at the University Medical Center and Tucson Medical Center, to design the organization's holiday card. KUAT maintained an active and visible presence in the community through a media partnership with *Tucson Lifestyle Magazine* for its annual performing arts preview events, as well as participation in the annual Baby Fair and Family Arts Festival. A number of other media sponsorships helped to increase organizational visibility in the community.

KUAT Online & New Media Department added a new staff to support our growing online media service. The online activities continue to be one of the main growth areas of the organization. More than 600 video-on-demand offerings were posted to the website: a ten-fold increase over last fiscal year.

High-definition (HD) radio service was inaugurated this year with funds received from a matching CPB grant from FY'06. In addition to improved sonic quality, the HD Radio transmission provides an opportunity to broadcast additional discrete program streams to HD radio receivers. Our classical music service KUAT-FM, provides an unparalleled round-the-clock classical music service. The station offered more original productions this year including thirteen broadcast concerts from the *Arizona Friends of Chamber Music*.

KUAT staff were recognized by their peers for exceptional workmanship. Tom Kleespie and Martin Rubio, received Rocky Mountain Emmy Awards for a segment from *Arizona Illustrated*. Photographer Dan Duncan won an Emmy for *The Desert Speaks*. *The Desert Speaks* was also recognized with an award for best documentary series by the

National Educational Telecommunications Association. Producer Sooyeon Lee accepted a “Lumie” from the Tucson Pima Arts Council, for her work on *Arizona Illustrated* exemplifying leadership in the advancement of the arts. Producer Luis Carrion was selected to fill one of only twenty seats from the hundreds of applicants to the *CPB/PBS Producers Academy* at WGBH/Boston.

The KUAT Communications Group is perhaps better positioned than ever before to provide service to the university community and to communities throughout southern Arizona and beyond. Our focus in the coming year will be to identify revenue and content opportunities, develop strategic partnerships, invest in technology to streamline operational effectiveness and work to have a positive impact on the residents of southern Arizona through public service media.

A handwritten signature in black ink on a light yellow rectangular background. The signature reads "Jack Gibson" in a cursive, flowing script.

Jack Gibson
Director and General Manager
The KUAT Communications Group

ORGANIZATIONAL PROFILE

The KUAT Communications Group (“KUAT”) is an educational, broadcast and production resource of The University of Arizona, consisting of analog and digital public television stations, classical and NPR news/jazz radio stations, a cable television channel and a MultiMedia unit.

In the tradition of The University of Arizona's mission as a land grant institution, KUAT provides a variety of educational services to the Southern Arizona community.

KUAT Television - affiliated with the Public Broadcasting Service (“PBS”) - broadcasts via two analog transmitters strategically located to cover a broad portion of southeastern Arizona. These transmitters simultaneously broadcast a core of locally-scheduled PBS programming intermixed with several locally-produced series.

In addition to our analog TV transmitters, KUAT also operates two digital transmitters. One transmitter provides a constant stream of high-definition programming 24 hours a day, seven days a week. The other transmitter offers four multicast program services 18 plus hours each day, including a channel devoted to children's programming, a channel focusing on continuing education and lifelong learning, and a channel providing highlights of some of the most popular PBS primetime fare. Both major cable service providers in the Tucson designated market area offer their respective subscribers our analog, high definition and multicast offerings.

KUAT also offers a broad and popular group of radio services. With our classical station, KUAT-FM, broadcasting via transmitter and multiple translators throughout Southern Arizona, we provide a 24 hour-per-day classical music service, interspersed with local news.

Our sister stations, KUAZ-AM and KUAZ-FM, provide national news and public affairs programming throughout the day from respected sources such as National Public Radio (“NPR”) and Public Radio International (“PRI”).

Also, our local radio news team provides multiple news breaks, feature stories and other reports of interest throughout each weekday. We also produce a regular weekly NPR-style news series focusing on issues of local and regional interest.

While the AM station is a sunrise-to-sunset station, the KUAZ-FM station broadcasts 24 hours a day. In the evenings the station provides a mix of jazz recordings and national jazz programming, followed in the early morning hours by the British Broadcasting Corporation (“BBC”) overnight world news service.

In addition to our television and radio broadcast operations, KUAT also includes a MultiMedia division. MultiMedia supports The University of Arizona's academic and land-grant mission and the educational mission of public broadcasting through the production and distribution of educational materials for use in the campus classrooms and for general public distance learning opportunities through its Educational Broadband Service wireless cable system. The unit presently operates a television studio, video classrooms, satellite uplinks and receivers, microwave connections, internet streaming, and video channels, including the UA Channel a cable offering of both Cox and Comcast.

MANAGEMENT'S DISCUSSION & ANALYSIS

1. Introduction and Reporting Entity

The following discussion and analysis provides an overview of the financial position and activities of the KUAT Communications Group ("KUAT"), a division of The University of Arizona (the "University") for the year ending June 30, 2007. Information for the year ended June 30, 2006, is also provided for comparative purposes.

This discussion has been prepared by management and should be read in conjunction with the financial statements and the accompanying notes, which follow this section.

2. Using the Financial Statements

The financial statements include three statements: the Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; and the Statement of Cash Flows.

The Statement of Net Assets presents the financial position of KUAT at the end of the fiscal year and includes all assets and liabilities of KUAT. Assets and liabilities are classified as either current or non-current. Current liabilities are obligations that will be paid within one year of the statement date. Current assets are those resources available to satisfy current liabilities. The difference between total assets and total liabilities, referred to as net assets, is one indicator of the financial condition of the Organization. Generally, assets and liabilities are measured using current values. One notable exception is capital assets, which are stated at historic cost less an allowance for depreciation.

The Statement of Revenues, Expenses and Changes in Net Assets provides information about KUAT's financial activities during the year. Revenues and expenses are classified as either operating or non-operating, and all changes in net asset categories are reported, including capital contributions and additions or reductions to endowments. As a university licensee, general appropriations from The University, along with contributions and investment income are considered non-operating revenues. Therefore, as a result of these standards, KUAT will typically appear to operate at a loss. By comparison, the total change in net assets is a better indicator of whether the overall financial condition has improved or worsened during the year.

The Statement of Cash Flows reflects the inflows and outflows of cash and cash equivalents during the year. It shows the various cash activities by type, reconciling the beginning cash and cash equivalents amount to the ending cash and cash equivalents amount, which is shown on the Statement of Net Assets. In addition, this statement reconciles cash flows from operating activities to operating income/(loss) on the Statement of Revenues, Expenses and Changes in Net Assets.

MANAGEMENT'S DISCUSSION & ANALYSIS

3. Condensed Financial Statement Information***Statement of Net Assets***

A summarized comparison of KUAT's assets, liabilities and net assets at June 30, 2007, and June 30, 2006, is as follows:

	<u>2007</u>	<u>2006</u>	<u>% Change</u>
Assets			
Current assets	\$ 8,152,161	\$ 7,868,324	3.6%
Non-current assets other than capital assets	641,237	610,277	5.1%
Capital assets	<u>3,251,670</u>	<u>2,487,759</u>	30.7%
Total assets	<u>12,045,068</u>	<u>10,966,360</u>	9.8%
Liabilities			
Current liabilities	831,092	787,975	5.5%
Non-current liabilities	<u>-</u>	<u>-</u>	0.0%
Total liabilities	<u>831,092</u>	<u>787,975</u>	5.5%
Net assets			
Invested in capital assets	3,251,670	2,487,759	30.7%
Restricted-nonexpendable	591,861	534,786	10.7%
Restricted-expendable	287,240	196,685	46.0%
Unrestricted	<u>7,083,205</u>	<u>6,959,155</u>	1.8%
Total net assets	<u>\$ 11,213,976</u>	<u>\$ 10,178,385</u>	10.2%

Total net assets increased by \$1,035,591, or 10.2%, primarily due to purchases of capital assets. Capital assets increased by \$763,911, or 30.7%, due to capital purchases for digital conversion in the amount of \$1,463,133 less depreciation and disposal of capital equipment during the fiscal year.

Current assets consist primarily of cash and cash equivalents, short term investments, receivables and prepaid expenses. Current liabilities consist primarily of accounts payable, accrued liabilities and deferred revenue. Current assets are sufficient to meet current obligations.

MANAGEMENT'S DISCUSSION & ANALYSIS

Condensed Financial Statement Information (continued)***Statement of Revenues, Expenses and Changes in Net Assets***

A summarized comparison of KUAT's operations for the year ended June 30, 2007, and for the year ended June 30, 2006, is as follows:

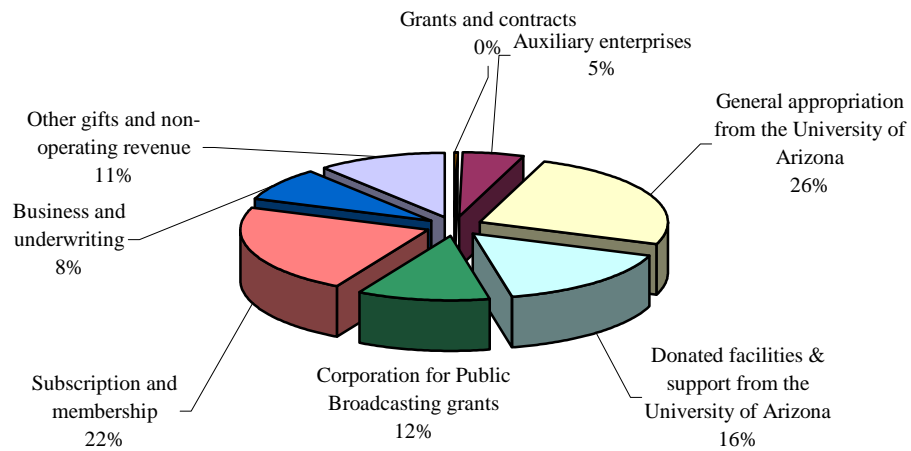
	2007	2006	% Change
Operating revenue			
Grants and contracts	\$ 21,715	\$ 40,428	-46.3%
Auxiliary enterprises	559,017	770,462	-27.4%
Total operating revenues	580,732	810,890	-28.4%
Operating expenses			
Program services:			
Programming and production	5,503,739	5,275,640	4.3%
Broadcasting	1,690,355	1,549,966	9.1%
Program information and promotion	548,576	705,177	-22.2%
Supporting services:			
Management and general	975,025	1,040,602	-6.3%
Fundraising and membership development	1,648,164	1,608,389	2.5%
Total operating expenses	10,365,859	10,179,774	1.8%
Operating loss	(9,785,127)	(9,368,884)	4.4%
Non-operating revenues			
General appropriation from the U of A	2,657,782	2,564,562	3.6%
Donated facilities and administrative support	1,709,925	1,709,271	0.0%
Corporation for Public Broadcasting grants	1,238,331	1,280,190	-3.3%
Subscription and membership	2,387,949	2,361,458	1.1%
Business and underwriting	882,370	772,828	14.2%
Other gifts and non-operating revenues	1,177,091	837,448	40.6%
Net non-operating revenues	10,053,448	9,525,757	5.5%
Capital and endowment reductions	767,270	-	100.0%
Increase in net assets	1,035,591	156,873	560.1%
Net assets - beginning of year	10,178,385	10,021,512	1.6%
Net assets - end of year	<u>\$ 11,213,976</u>	<u>\$ 10,178,385</u>	10.2%

MANAGEMENT'S DISCUSSION & ANALYSIS

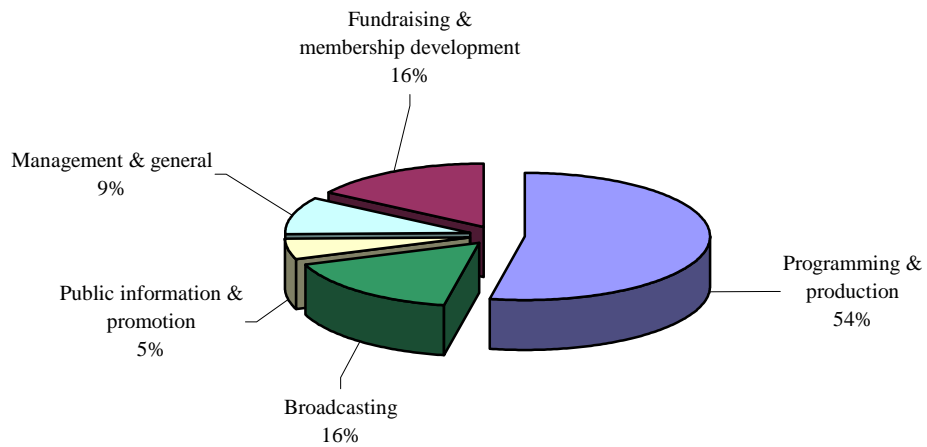
Condensed Financial Statement Information (continued)

The following graphs illustrate the operating and non-operating revenues and expenses for the year ended June 30, 2007.

Operating & Non-operating Revenues



Operating & Non-operating Expenses



MANAGEMENT'S DISCUSSION & ANALYSIS

Condensed Financial Statement Information (continued)

Operating revenues and expenses - In fiscal year 2007, KUAT's operating revenues decreased by approximately \$230,158, or 28.4%, over fiscal year 2006. This decrease was attributable to a reduction in auxiliary enterprise revenue associated with distance learning and uplink fees.

Operating expenses increased approximately \$186,085, or 1.8%, in fiscal year 2007. Program services, which consist of programming and production, broadcasting, and program information and promotion expenses, increased approximately \$211,887, or 2.8%, primarily due to increased salary, employee benefits, and associated indirect administrative support from The University. Supporting services, which consist of management and general and fundraising and membership development expenses, decreased approximately \$25,802 or .9%, primarily due to operational efficiencies.

Non-operating revenues - Non-operating revenues increased approximately \$527,691, or 5.5%, over fiscal year 2006. The general appropriation from The University increased approximately \$93,220, or 3.6%. Donated facilities and administrative support (indirect administrative support) provided by The University remained constant with fiscal year 2006. The value is calculated using the Corporation for Public Broadcasting's Other Sponsored Activities Method. Other gifts and non-operating revenues increased by approximately \$339,643, or 40.6% due to additional bequests and change in fair value of investments.

4. Capital and Debt Analysis

As of June 30, 2007, KUAT had \$3,251,670 in capital assets, net of accumulated depreciation. Title to these assets resides with The University, which allocates custody of the assets to KUAT for its operational needs.

The federally mandated Telecommunications Act of 1996 requires all public television stations be able to broadcast on digital television channels as of May 2003. KUAT successfully met the May 2003 deadline and is currently broadcasting the national PBS digital signal. The next phase of the project includes expanding broadcast capabilities for insertion of local material. The final phase includes local production capability in digital format. The entire digital conversion has an estimated cost of \$7.30 million. KUAT is funding the conversion project through a state appropriation, federal grants and contributions.

KUAT does not separately issue long-term debt and is not currently engaged in any long-term financing transactions.

5. Economic Outlook

KUAT management believes the stations are positioned to continue their mission to provide unique high-quality educational, cultural, informational, public affairs and entertainment service based upon the needs of the citizens of Southern Arizona.

KUAT is a participating station for the Corporation for Public Broadcasting's Major Giving Initiative ("MGI") program. The primary goal of MGI is to create an internal mechanism to enhance major giving (planned giving, large gifts, etc.) to the stations, thus ensuring future financial stability. KUAT management continues to develop long and short-term strategic plans to position KUAT for the future, while addressing the challenges of the financial health of the organization.

MANAGEMENT'S DISCUSSION & ANALYSIS

Economic Outlook (continued)

Gift revenue continues to be a substantial source of our Organization's funding. Planned giving continues to fund a significant portion of the digital conversion project. KUAT remains dependent on general appropriations from The University of Arizona and grants from the Corporation for Public Broadcasting.

The KUAT Communications Group is ultimately subject to the same economic variables that affect other financial entities (especially competition from other local non-profit organizations for philanthropic donations), making it difficult to project future outcomes. Management is well aware of the challenges ahead and is working diligently and responsibly to continue to provide high quality public broadcasting and educational services.



Keegan, Linscott & Kenon, P.C.

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INDEPENDENT AUDITORS' REPORT

The KUAT Communications Group
The University of Arizona
Tucson, Arizona

We have audited the accompanying statements of net assets of the KUAT Communications Group ("KUAT"), a division of The University of Arizona, (the "University") as of June 30, 2007 and 2006, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of The University'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 the 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. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the KUAT Communications Group as of June 30, 2007 and 2006, and the results of its operations and 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 4 through 9 are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Keegan, Linscott & Kenon, P.C.

Tucson, Arizona
November 7, 2007

FINANCIAL STATEMENTS

STATEMENTS OF NET ASSETS
AS OF JUNE 30,

	2007	2006
Assets		
Current assets:		
Cash and cash equivalents		
Funds held by the University of Arizona	\$ 6,680,528	\$ 6,702,281
Funds held by the University of Arizona Foundation	630,694	606,606
Accounts receivable (net of allowances of \$65,000 & \$67,800 as of June 30, 2007 and 2006, respectively)	404,568	421,846
Government grants receivable	190,815	10,729
Bequests receivable	154,891	23,400
Prepaid expenses	90,665	103,462
Total current assets	8,152,161	7,868,324
Non-current assets:		
Endowment investments	591,861	534,786
Bequests receivable	41,650	64,200
Prepaid expenses	7,726	11,291
Capital assets, net	3,251,670	2,487,759
Total non-current assets	3,892,907	3,098,036
Total assets	12,045,068	10,966,360
Liabilities		
Current liabilities:		
Accounts payable	331,203	173,429
Accrued payroll and benefits	193,815	199,469
Accrued compensated absences	296,643	326,327
Deferred revenue and deposits	9,431	88,750
Total current liabilities	831,092	787,975
Non-current liabilities:		
Deferred revenue and deposits	-	-
Total non-current liabilities	-	-
Total liabilities	831,092	787,975
Net assets		
Invested in capital assets, net of related debt and depreciation	3,251,670	2,487,759
Restricted for:		
Nonexpendable - endowments	591,861	534,786
Expendable - station programs / capital projects	287,240	196,685
Unrestricted	7,083,205	6,959,155
Total net assets	\$ 11,213,976	\$ 10,178,385

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30,

	2007	2006
Operating revenue		
Federal grants, contracts and appropriations	\$ 21,715	\$ 40,428
Auxiliary enterprises	559,017	770,462
Total operating revenues	580,732	810,890
Operating expenses		
Program services:		
Programming and production	5,503,739	5,275,640
Broadcasting	1,690,355	1,549,966
Program information and promotion	548,576	705,177
Supporting services:		
Management and general	975,025	1,040,602
Fundraising and membership development	1,648,164	1,608,389
Total operating expenses	10,365,859	10,179,774
Operating loss	(9,785,127)	(9,368,884)
Non-operating revenues (expenses)		
General appropriation from the U of A	2,657,782	2,564,562
Donated facilities and administrative support from the U of A	1,709,925	1,709,271
Corporation for Public Broadcasting grants	1,238,331	1,280,190
Subscription and membership income	2,387,949	2,361,458
Business and underwriting	882,370	772,828
Legacies and bequests	572,138	223,821
Other gifts	18,032	12,360
Investment income	306,521	187,169
Other non-operating revenues	281,826	416,119
Other non-operating expenses	(1,426)	(2,021)
Capital grants, gifts and conveyances	767,270	
Net non-operating revenues	10,820,718	9,525,757
Increase in net assets	1,035,591	156,873
Net assets		
Net assets - beginning of year	10,178,385	10,021,512
Net assets - end of year	\$ 11,213,976	\$ 10,178,385

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30,

	2007	2006
Cash flows from operating activities		
Grants and contracts	\$ 39,500	\$ 34,960
Payments for salaries, wages and benefits	(4,801,841)	(4,783,326)
Payments to suppliers	(3,131,471)	(2,892,216)
Auxiliary enterprise receipts	494,952	642,750
Net cash used for operating activities	(7,398,860)	(6,997,832)
Cash flows from non-capital financing activities		
General appropriation from the U of A Corporation for Public Broadcasting grants	2,657,782	2,564,562
Gifts and grants for other than capital purposes	1,238,331	1,270,190
	4,142,084	3,796,464
Net cash provided by non-capital financing activities	8,038,197	7,631,216
Cash flows from capital financing activities		
Capital grants and gifts received	576,455	-
Proceeds from sale of capital assets	231	122
Purchase of capital assets	(1,463,133)	(92,330)
Net cash used for capital financing activities	(886,447)	(92,208)
Cash flows from investing activities		
Proceeds from sales and maturities of investments	172,885	79,356
Interest and dividends on investments	76,560	72,952
Net cash provided by investing activities	249,445	152,308
Net increase in cash and cash equivalents	2,335	693,484
Cash and cash equivalents		
Cash and cash equivalents - beginning of year	7,308,887	6,615,403
Cash and cash equivalents - end of year	\$ 7,311,222	\$ 7,308,887
Reconciliation of operating loss to net cash used for operating activities		
Operating loss	\$ (9,785,127)	\$ (9,368,884)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation expense	697,795	522,432
Donated facilities and administrative support	1,709,925	1,709,271
Changes in assets and liabilities:		
Receivables, net	(80,934)	(53,897)
Prepaid expenses	16,364	45,434
Accounts payable	157,774	134,754
Accrued payroll and compensated absences	(35,338)	94,308
Deferred revenue	(79,319)	(81,250)
Net cash used for operating activities	\$ (7,398,860)	\$ (6,997,832)
Significant noncash transactions		
Change in fair value of investments	\$ 224,730	\$ 103,980
Loss on disposal of capital assets	\$ (1,426)	\$ (2,021)

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Organization and Purpose

The KUAT Communications Group ("KUAT") is a division of The University of Arizona (the "University"), which functions as a public communications entity. KUAT-TV, KUAT-FM, and KUAZ/KUAZ-FM (the "Stations") are licensed by the Federal Communication Commission ("FCC") as non-commercial, educational broadcasting stations. For financial statement purposes, KUAT-TV includes KUAT-TV, KUAS-TV, KUAT-DT, KUAS-DT and MultiMedia, a production and distribution department, operating an Educational Broadband Service ("EBS") and a Multipoint Distribution System ("MDS") in conjunction with satellite, microwave and internet services to provide instructional programming services.

Basis of Presentation

The financial statements include all funds directly controlled by the KUAT Communications Group. Fiscal responsibility remains with The University of Arizona.

The financial statements are presented in accordance with U.S. generally accepted accounting principles ("GAAP") applicable to governmental colleges and universities engaged in business-type activities as adopted by the Governmental Accounting Standards Board ("GASB"). KUAT follows Financial Accounting Standards Board ("FASB") Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, and the Financial Reporting Guidelines published by the Corporation for Public Broadcasting ("CPB"), 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 KUAT at June 30. Assets and liabilities are classified as either current or non-current. Current liabilities are obligations that will be paid within one year of the statement date and current assets are those resources available to satisfy current liabilities. Net assets are the residual amounts and are classified according to external donor restrictions and availability of assets to satisfy obligations. Invested in capital assets represents capital assets less accumulated depreciation. Nonexpendable restricted net assets are gifts received for endowment purposes, the corpus of which may not 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 the other net assets, including those that have been designated by management to be used for other than general operating purposes.

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

- The Statement of Revenues, Expenses, and Changes in Net Assets provides information about KUAT's financial activities during the year. Revenues and expenses are classified as either operating or non-operating, and all changes in net assets are reported, including capital contributions and additions to endowments. Generally, revenues generated by KUAT for services are considered to be operating revenues. Other revenues, such as University appropriations and gifts, are not considered generated from operations and are reported as non-operating revenues. Operating expenses include the cost of providing program and supporting services, depreciation of capital assets and the indirect support provided by The University. Non-operating expenses include the loss on disposal of capital assets.
- The Statement of Cash Flows provides information about KUAT's sources and uses of cash and cash equivalents during the year. Increases and decreases in cash and cash equivalents are classified as operating, non-capital financing, capital financing, or investing activities.

The financial statements are reported using the accrual basis of accounting. KUAT eliminates all internal activity.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid investments held by The University and The University of Arizona Foundation (the "Foundation").

Funds Held by The University of Arizona

The University acts as collection and disbursement agent on behalf of KUAT. Funds held by The University represent the excess of cash collected over cash disbursed and are due on demand. Therefore, these amounts are considered cash and cash equivalents for purposes of reporting cash flows.

Under Arizona State law and Board of Regents' policies, The University may invest its pooled operating funds in collateralized time certificates of deposit and repurchase agreements with commercial banks, United States Treasury securities and other Federal agency securities or in the government investment pool administered by the State Treasurer's office. Cash amounts held in excess of federal depository insurance limits are otherwise collateralized by U.S. Government obligations held by an agent of the bank in the name of the State of Arizona.

Funds Held by The University of Arizona Foundation

Amounts on deposit with the Foundation are cash collected and invested for KUAT by the Foundation. The balance is due to KUAT on demand. Therefore, these amounts are considered cash and cash equivalents for purposes of reporting cash flows.

The Foundation invests such funds in a combination of fixed income securities, government obligations, treasury obligations, cash and cash equivalents, and other federal agency obligations in order to achieve a diversified portfolio.

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Endowment Investments

Endowment assets have been donated to KUAT and are permanently restricted by the donor. Endowment assets are held and invested by The University and the Foundation. With respect to KUAT, these investments represent external investment pools. The investments pools include investments in various stocks, bonds, fixed income securities, real estate and commodities. As of June 30, 2007 and 2006, the weighted average maturity of investments was approximately 5 years for The University and approximately 4 years for the Foundation. The investment pools are not rated.

Investments are carried at market, and realized and unrealized gains and losses are reflected in the statement of revenues, expenses and changes in net assets.

Capital Assets

Capital assets equal to or greater than \$5,000 are recorded at cost or, in the case of gifts, at their estimated fair value at the date of donation. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets as follows:

Transmission, antenna, and tower	15 years
Studio, equipment, and furniture and fixtures	7 years

Interest is capitalized in connection with the construction of major facilities. The capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life.

Revenue Recognition

Federal grants, contracts and appropriations and non-governmental grants and contracts are accounted for as exchange transactions and are recorded as revenue when earned. Advances in excess of costs incurred under grants and contracts are deferred and recognized as revenue when the related expense is incurred.

Auxiliary enterprise revenue results mainly from the sale of services of the MultiMedia department, lease of broadcast rights, and video sales of programming. In addition, KUAT leases certain excess capacity EBS and MDS frequencies and other spectrum to third-parties. All such revenue is reported when services have been provided or products have been shipped.

As a division of The University of Arizona, KUAT receives an annual appropriation from The University. The appropriation is reported as revenue in the year appropriated.

Subscription and membership income are considered unconditional promises to give and are reported as unrestricted revenue in the period the pledge is made. Allowance is made for uncollectible accounts.

Revenue related to program underwriting is recognized as unrestricted contributed revenue in the period the agreement is executed.

Other gifts received for the purpose of supporting programming costs, including amounts from the Corporation for Public Broadcasting, are recognized as revenue in the period the promise to give is made. CPB funding is expended in the year following receipt for budgetary purposes. Other gifts are considered to be unrestricted unless specifically restricted by the donor. KUAT records donor-restricted gifts that have not been expended in the current year as restricted net assets.

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Deferred Revenue

Excess capacity lease incentive payments are recorded as deferred revenue and amortized to revenue over the term of the agreement.

Functional Allocation of Expenses

The costs of various program services and other activities have been summarized on a functional basis in the statement of revenues, expenses and changes in net assets. Accordingly, certain costs have been allocated among program and supporting services based on total personnel costs or other systematic bases.

Prepaid Expenses

Prepaid expenses include dues and program broadcast rights. These costs are amortized on a straight-line basis over the period of the agreement.

Net Assets

KUAT has both restricted and unrestricted resources available for most programs. Restricted resources are externally restricted for a specific purpose and primarily include specific grants and contributions. KUAT's policy regarding whether to first apply restricted or unrestricted resources is made on a case-by-case basis.

Tax Status

The University has received approval for federal tax-exempt status from the Internal Revenue Service and is also exempt from state income taxes. Accordingly, no provision is made for income taxes in the accompanying financial statements. Management is not aware of any matters which would cause The University or KUAT to lose its tax-exempt status.

NOTES TO FINANCIAL STATEMENTS

2. Individual Station Financial Information

	KUAT - TV	KUAT-FM	KUAZ	2007 Combined Total	2006 Combined Total
Assets					
Currents assets:					
Cash and cash equivalents					
Funds held by the University of Arizona	\$ 4,549,280	\$ 1,141,901	\$ 989,347	\$ 6,680,528	\$ 6,702,281
Funds held by the University of Arizona Foundation	351,026	139,834	139,834	630,694	606,606
Accounts receivable (net of allowances of \$65,000 and \$67,800, respectively)	181,937	57,871	164,760	404,568	421,846
Government grants receivable	105,815	42,500	42,500	190,815	10,729
Bequests receivable	104,391	25,250	25,250	154,891	23,400
Prepaid expenses	23,765	6,412	60,488	90,665	103,462
Due from other funds (station transfers)	412,132	321,478	(733,610)	-	-
Total current assets	5,728,346	1,735,246	688,569	8,152,161	7,868,324
Non-current assets:					
Endowment investments	5,487	293,187	293,187	591,861	534,786
Bequests receivable	41,650	-	-	41,650	64,200
Prepaid expenses	7,726	-	-	7,726	11,291
Capital assets, net	2,982,892	14,956	253,822	3,251,670	2,487,759
Total non-current assets	3,037,755	308,143	547,009	3,892,907	3,098,036
Total assets	8,766,101	2,043,389	1,235,578	12,045,068	10,966,360
Liabilities					
Current liabilities:					
Accounts payable	320,441	6,299	4,463	331,203	173,429
Accrued payroll and benefits	131,512	26,822	35,481	193,815	199,469
Accrued compensated absences	202,046	42,563	52,034	296,643	326,327
Deferred revenue and deposits	7,056	-	2,375	9,431	88,750
Total current liabilities:	661,055	75,684	94,353	831,092	787,975
Non-current liabilities					
Deferred revenue and deposits	-	-	-	-	-
Total non-current liabilities	-	-	-	-	-
Total Liabilities	661,055	75,684	94,353	831,092	787,975
Net assets					
Invested in capital assets, net of related debt and depreciation	2,982,892	14,956	253,822	3,251,670	2,487,759
Restricted for:					
Nonexpendable - endowments	5,487	293,187	293,187	591,861	534,786
Expendable - station programs / projects	86,059	9,844	522	96,425	196,685
Expendable - capital projects	105,815	42,500	42,500	190,815	-
Unrestricted	4,924,793	1,607,218	551,194	7,083,205	6,959,155
Total net assets	\$ 8,105,046	\$ 1,967,705	\$ 1,141,225	\$ 11,213,976	\$ 10,178,385

NOTES TO FINANCIAL STATEMENTS

Individual Station Financial Information (continued)

	KUAT - TV	KUAT-FM	KUAZ	2007 Combined Total	2006 Combined Total
Operating revenue					
Federal grants, contracts and appropriations	\$ 21,715	\$ -	\$ -	\$ 21,715	\$ 40,428
Auxiliary enterprises	541,709	8,822	8,486	559,017	770,462
Total operating revenues	563,424	8,822	8,486	580,732	810,890
Operating expenses					
Program services:					
Programming and production	3,961,978	505,463	1,036,298	5,503,739	5,275,640
Broadcasting	1,474,029	108,978	107,348	1,690,355	1,549,966
Program information and promotion	405,200	68,260	75,116	548,576	705,177
Supporting services:					
Management and general	578,296	182,487	214,242	975,025	1,040,602
Fundraising and membership development	1,008,812	298,883	340,469	1,648,164	1,608,389
Total operating expenses	7,428,315	1,164,071	1,773,473	10,365,859	10,179,774
Operating loss	(6,864,891)	(1,155,249)	(1,764,987)	(9,785,127)	(9,368,884)
Non-operating revenues (expenses)					
General appropriation from the U of A	1,801,724	415,427	440,631	2,657,782	2,564,562
Donated facilities and administrative support from the U of A					
Corporation for Public Broadcasting grants	1,195,709	204,784	309,432	1,709,925	1,709,271
Subscription and membership income	964,182	137,074	137,075	1,238,331	1,280,190
Business and underwriting	1,656,082	310,390	421,477	2,387,949	2,361,458
Legacies and bequests	309,686	135,391	437,293	882,370	772,828
Other gifts	364,150	122,811	85,177	572,138	223,821
Investment income	11,027	4,250	2,755	18,032	12,360
Other non-operating revenues	159,652	93,591	53,278	306,521	187,169
Other non-operating expenses	281,826	-	-	281,826	416,119
Other non-operating expenses	(1,426)	-	-	(1,426)	(2,021)
Capital grants, gifts and conveyances	607,270	80,000	80,000	767,270	-
Net non-operating revenues	7,349,882	1,503,718	1,967,118	10,820,718	9,525,757
Increase in net assets	484,991	348,469	202,131	1,035,591	156,873
Net assets					
Net assets - beginning of year	7,620,055	1,619,236	939,094	10,178,385	10,021,512
Net assets - end of year	\$ 8,105,046	\$ 1,967,705	\$ 1,141,225	\$ 11,213,976	\$ 10,178,385

NOTES TO FINANCIAL STATEMENTS

3. Accounts Receivable

A summary of accounts receivable by station at June 30, is as follows:

	<u>KUAT-TV</u>	<u>KUAT-FM</u>	<u>KUAZ</u>	<u>2007 TOTAL</u>	<u>2006 TOTAL</u>
Subscription and membership, net	\$ 6,934	\$ 15,999	\$ 24,874	\$ 47,807	\$ 55,288
Underwriting and business	125,957	40,923	140,069	306,949	289,789
Auxiliary enterprises	48,065	740	740	49,545	13,317
Other	981	209	(923)	267	63,452
	<u>\$ 181,937</u>	<u>\$ 57,871</u>	<u>\$ 164,760</u>	<u>\$ 404,568</u>	<u>\$ 421,846</u>

4. Related Party Transactions

The KUAT Communications Group is a division of The University that operates public television and radio stations. The accompanying financial statements include only the transactions specific to KUAT and do not include other transactions of The University.

KUAT receives a portion of its revenues and support from The University in the form of a general appropriation totaling \$2,657,782 and \$2,564,562 for operational purposes for the years ended June 30, 2007 and 2006, respectively.

KUAT receives administrative support from The University in the form of legal services, accounting services, use of facilities, repairs and maintenance, and other administrative support. In addition, facilities not directly related to KUAT stations are owned by The University and used by KUAT. The value of the indirect support is calculated based on the Other Sponsored Activities Method developed by the Corporation for Public Broadcasting. The indirect support, recorded in non-operating revenues, totals \$1,709,925 and \$1,709,271 for the years ending June 30, 2007 and 2006, respectively.

In addition, The University and the Foundation hold cash and investments for the benefit of KUAT. These funds are due on demand.

NOTES TO FINANCIAL STATEMENTS

5. Capital Assets

A presentation of KUAT's capital assets at June 30, is as follows:

	Beginning Balance July 1, 2006	Additions	Retirements	Ending Balance June 30, 2007
Transmission, antenna and tower	\$ 2,485,592	\$ 243,978	\$ -	\$ 2,729,570
Studio, equipment, FF&E	4,152,965	1,219,155	(79,083)	5,293,037
Total depreciable capital assets	6,638,557	1,463,133	(79,083)	8,022,607
Less: accumulated depreciation				
Transmission, antenna and tower	984,359	154,702	-	1,139,061
Studio, equipment, FF&E	3,166,439	543,093	(77,656)	3,631,876
Total accumulated depreciation	4,150,798	697,795	(77,656)	4,770,937
Capital assets, net	<u>\$ 2,487,759</u>	<u>\$ 765,338</u>	<u>\$ (1,427)</u>	<u>\$ 3,251,670</u>

Depreciation expense totaled \$697,795 and \$522,432 for the years ended June 30, 2007 and 2006, respectively. KUAT has purchased transmission and studio assets with grants from the Public Telecommunications Facilities Program ("PTFP") with an original cost of \$3,190,484 and with a net book value of \$2,103,035. PTFP funded assets are subject to a 10 year lien from the date of project completion. The PTFP has the ability to seize the assets if not used in accordance with the grant agreement.

6. Retirement Plans

Full-time, permanent employees of The University are, in general, required to be members of an authorized retirement program. The programs are funded through payroll deductions from covered employees' gross earnings and amounts contributed by The University. In general, employees' rights vest after five years of service under all plans. University contributions for, and interest forfeited by, employees who leave employment before five years of service are used to reduce The University's future period contribution requirements. Retirement payments are obligations of the respective retirement funds and not The University.

Benefit eligible employees of The University are covered by the Arizona State Retirement System ("ASRS"), a defined benefit retirement plan. The ASRS is a multiple employer, cost-sharing pension plan providing death and retirement benefits based on a combination of years of service and average monthly earnings, as defined. The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information.

The ASRS contribution rate, as required by statute for both employees and employers was 9.1 percent (8.6 percent retirement and .5 percent long-term disability) and 7.4 percent (6.9 percent retirement and .5 percent long-term disability) of the employees' annual covered payroll for the years ended June 30, 2007 and 2006, respectively. KUAT's retirement plan expense for this plan approximated \$159,876 and \$145,759 for the years ended June 30, 2007 and 2006, respectively.

NOTES TO FINANCIAL STATEMENTS

Retirement Plans (continued)

The University also offers pension benefits for eligible faculty, academic professionals, and administrators via defined contribution plans. The benefits of the defined contribution plan depend solely on amounts contributed to the plan plus investment earnings. State statute requires that both the employee and The University contribute an amount equal to 7 percent of the employee's base salary. KUAT's retirement plan expense for this plan approximated \$120,577 and \$100,645 for the years ended June 30, 2007 and 2006, respectively.

7. Restrictions on Net Assets

KUAT receives grants and funding from various sources to be used for operations, production, and promotion of certain activities. A summary of the temporarily restricted and permanently restricted net assets as of June 30, is as follows:

	KUAT-TV	KUAT-FM	KUAZ	2007 Total	2006 Total
Non-expendable - endowments					
Radio Production NEA challenge	\$ -	\$ 293,187	\$ 293,187	\$ 586,374	\$ 529,826
Television endowment	5,487	-	-	5,487	4,960
	<u>5,487</u>	<u>293,187</u>	<u>293,187</u>	<u>591,861</u>	<u>534,786</u>
Expendable - station programs/projects					
Ready to Learn support	5,684	-	-	5,684	4,479
Desert Speaks support	38,924	-	-	38,924	24,668
Great Voices Radio Series support	-	9,323	-	9,323	9,323
Program acquisition / production	5,000	521	522	6,043	121,764
Expendable Capital Projects	105,815	42,500	42,500	190,815	
Operational support excluding admin. costs	36,451	-	-	36,451	36,451
Total station programs/projects	<u>191,874</u>	<u>52,344</u>	<u>43,022</u>	<u>287,240</u>	<u>196,685</u>
	<u>\$ 197,361</u>	<u>\$ 345,531</u>	<u>\$ 336,209</u>	<u>\$ 879,101</u>	<u>\$ 731,471</u>

In addition, management has designated \$17,201 and \$420,740 of unrestricted funds at June 30, 2007 and 2006, respectively, for digital television conversion.

NOTES TO FINANCIAL STATEMENTS

8. Investment Income

A summary of investment income by station at June 30, is as follows:

	<u>KUAT-TV</u>	<u>KUAT-FM</u>	<u>KUAZ</u>	<u>2007 Total</u>	<u>2006 Total</u>
Interest and dividends	\$ 39,390	\$ 23,559	\$ 13,614	\$ 76,563	\$ 72,952
Net realized gain on investments	56	2,587	2,587	5,230	10,237
Net unrealized gain on investments	120,206	67,445	37,077	224,728	103,980
	<u>\$ 159,652</u>	<u>\$ 93,591</u>	<u>\$ 53,278</u>	<u>\$ 306,521</u>	<u>\$ 187,169</u>

SUPPLEMENTAL SCHEDULE

SCHEDULES OF OPERATING AND NON-OPERATING FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30,

	Program Services				Supporting Services			2007 Combined Total Expenses	2006 Combined Total Expenses
	Programming and Production	Broadcasting	Public Info and Promotion	Total Program Services	Management and General	Fundraising & Membership Development	Total Supporting Services		
KUAT - TV									
Salaries	\$ 1,640,221	\$ 758,573	\$ 247,316	\$ 2,646,110	\$ 329,706	\$ 282,009	\$ 611,715	\$ 3,257,825	\$ 3,292,695
General operations	1,158,066	333,338	83,223	\$ 1,574,627	141,951	541,769	\$ 683,720	2,258,347	2,200,487
Travel and training	25,082	9,972	2,959	\$ 38,013	4,307	6,520	10,827	48,840	53,478
Indirect administrative support	606,256	236,905	71,702	914,863	102,332	178,514	280,846	1,195,709	1,192,967
Depreciation	530,927	135,241	-	666,168	-	-	-	666,168	495,129
Non-operating expenses	1,426	-	-	1,426	-	-	-	1,426	2,021
Total KUAT-TV	3,961,978	1,474,029	405,200	5,841,207	578,296	1,008,812	1,587,108	7,428,315	7,236,777
KUAT - FM									
Salaries	267,128	68,210	40,822	376,160	111,429	162,849	274,278	650,438	786,643
General operations	143,312	19,778	15,173	178,263	37,536	80,340	117,876	296,139	283,895
Travel and training	1,200	487	186	1,873	1,230	2,805	4,035	5,908	5,659
Indirect administrative support	88,502	19,022	12,079	119,603	32,292	52,889	85,181	204,784	231,383
Depreciation	5,321	1,481	-	6,802	-	-	-	6,802	8,576
Non-operating expenses	-	-	-	-	-	-	-	-	-
Total KUAT-FM	505,463	108,978	68,260	682,701	182,487	298,883	481,370	1,164,071	1,316,156
KUAZ									
Salaries	463,132	52,992	46,428	562,552	137,121	158,566	295,687	858,239	798,298
General operations	381,147	20,094	15,186	416,427	37,912	120,656	158,568	574,995	520,314
Travel and training	3,008	468	210	3,686	1,298	999	2,297	5,983	6,602
Indirect administrative support	182,166	15,814	13,292	211,272	37,911	60,248	98,159	309,431	284,921
Depreciation	6,845	17,980	-	24,825	-	-	-	24,825	18,727
Non-operating expenses	-	-	-	-	-	-	-	-	-
Total KUAZ	1,036,298	107,348	75,116	1,218,762	214,242	340,469	554,711	1,773,473	1,628,862
Total expenses	\$ 5,503,739	\$ 1,690,355	\$ 548,576	\$ 7,742,670	\$ 975,025	\$ 1,648,164	\$ 2,623,189	\$ 10,365,859	\$ 10,181,795