

ARIZONA PUBLIC MEDIA
(A Division of The University of Arizona)

FINANCIAL STATEMENTS
June 30, 2010 and 2009

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MESSAGE FROM THE GENERAL MANAGER

Fiscal year 2010 provided many exciting growth opportunities for Arizona Public Media (AZPM). Management, together with our Community Advisory Board and staff, developed a five-year strategic plan that will position AZPM for the future in a rapidly evolving media environment. Our strategic intent is “...to be a trusted source of information that promotes thoughtful conversation and community collaboration. AZPM will create, acquire, and distribute distinctive and relevant content for, with, and about Southern Arizona, the University of Arizona, and the Southwest.” We are well underway in implementing this plan, and are energized by the measurable goals we are set to achieve.

In FY’10 AZPM launched *PlayPBS*, our online video player and national online distribution system. *PlayPBS* makes available to personal computer users content perhaps unseen for years, or shows missed just yesterday. It is “video-on-demand” for both local and national programs – with upcoming previews, cross-content linking, and educational resources for classroom use. Programs produced by AZPM are now available on hundreds of PBS station websites across the country, through their respective video players.

KUAZ-AM/FM, our NPR stations, achieved the highest audience share ever in Winter 2010, and were ranked the number one news/talk stations in Tucson, and fourth overall in the important morning drive-time.* *The Diane Rehm Show* helped boost morning listenership, as did the replacement of our 30 plus year-old AM transmitter, with a new HD digital AM transmitter, improving reliability and sonic quality. In FY’10 AZPM also began two new radio features: *In-Depth Arizona* and *Teachers’ Voices*.

Classical KUAT-FM celebrated its 35th anniversary on the air, and many supporters from the UA School of Music offered their accolades regarding the quality of music and depth of announcer knowledge that the station provides. Classical KUAT programming is now available through the *iTunes* radio tuner, and features three streams of Classical KUAT in their listings, including our highest quality 192K stream (the only 192K stream available in the classical genre).

Original program production is at the core of our strategic plan and in FY’10 several productions were distributed to audiences beyond Arizona. The second documentary in AZPM’s *Phoenix Mars Mission* series “*Onto the Ice*,” aired nationally, as did *Unforgettable: The Korean War*, which was selected for the national PBS primetime program schedule, to commemorate the 60th anniversary of the Korean War. *Southwest Gems: Our Desert National Parks* aired regionally in conjunction with the national Ken Burns series *National Parks: America’s Best Idea*. And locally, our Emmy® Award-winning TV news magazine *Arizona Illustrated* hosted nearly one thousand guests this past fiscal year, covering topics from cancer support to solar and sustainable housing. On KUAZ, our weekly radio newsmagazine *Arizona Spotlight* hosted 339 guests.

AZPM also brought Garrison Keillor and *A Prairie Home Companion*, and Neal Conan (from NPR’s *Talk of the Nation*) to Tucson, co-hosted a day-long community event about Arizona national parks as we launched Ken Burns’s *National Parks* television series, televised and webcast a live constitutional debate between two sitting U.S. Supreme Court justices, informed audiences about numerous voter propositions and candidate forums, and provided dozens of lectures and presentations by UA faculty and visiting scholars.

AZPM proudly upholds its mission to inform, inspire, and connect our community by *bringing people and ideas together* as a unit of the University of Arizona, for the benefit of our community.

Sincerely,



*Arbitron, Inc., Tucson: Winter 2010, MSA AQH Share, M-Su 6a-Mid, Persons 12+

ORGANIZATIONAL PROFILE

In the tradition of the University of Arizona's mission as a land grant institution, Arizona Public Media (AZPM) is an educational, broadcast and production resource of the University, consisting of six public television services, three public radio services and a growing number of educational services available online.

KUAT and KUAS are television stations affiliated with the Public Broadcasting Service (PBS) and broadcast via two digital transmitters strategically located to cover a broad portion of southeastern Arizona. KUAS terminated analog broadcast operations in July 2009, ending the analog-to-digital television conversion that began nearly a decade earlier. KUAT analog operations terminated in March 2009.

KUAT and KUAS provide a constant stream of PBS high-definition (HD) programming 24 hours a day, seven days a week, in addition to offering two discrete standard definition (SD) program services, *Create* and *V-me* on KUAT, and *PBS Kids* and *PBS World* on KUAS. Both major cable service providers in the Tucson market offer their subscribers all AZPM program offerings.

AZPM manages the *UA Channel*, a cable television service of both Cox and Comcast, featuring a mix of PBS titles, community programs, lectures, and events from the campus of the University of Arizona.

AZPM also offers radio services, including classical station KUAT-FM, which broadcasts via its main transmitter and five translators throughout Southern Arizona. KUAT-FM provides classical music 24 hours a day, interspersed with local news. Sister stations KUAZ-AM and KUAZ-FM provide national news and public affairs programming throughout the day from National Public Radio (NPR). KUAZ-HD2 provides a Spanish language public radio service featuring *Ahora!*, an offering from NPR and Radio Nederland along with programming from *Radio Bilingue*.

Our local radio news team provides multiple news breaks, feature stories and other reports of interest throughout each weekday. AZPM also produces a regular weekly NPR-style newsmagazine series called *Arizona Spotlight*, which focuses on issues of local and regional interest.

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

Online & New Media maintains a family of websites and provides a stable, secure, and scalable online infrastructure to serve the growing needs of AZPM. The department has developed a content management system that gives individual staff members control over the content they wish to publish online, greatly increasing the number of visitors and contributors to our websites. *PlayPBS* was launched recently – making many full length episodes from PBS and AZPM available for viewing online anytime.

AZPM also includes a Production Services department which supports the University of Arizona's academic mission and the educational mandate of public broadcasting through the production and distribution of lectures from the campus for community learning opportunities. The department manages the production resources of the entire organization, including the television and radio studios, remote production resources, video classrooms, satellite uplinks, microwave connections, Internet streaming, and educational video channels.

ECONOMIC OUTLOOK

AZPM management believes the organization continues to be well positioned to carry on in its mission to inform, inspire, and connect the community by bringing people and ideas together, while providing distinctive, high-quality educational program services via the public broadcast stations at the University of Arizona. This year, management completed its work to develop a transformational strategic plan to optimally position AZPM for the future, while addressing the immediate challenges of the financial health of the organization.

Organizational progress continued in FY'10 with regard to AZPM's ability to generate local revenue from individual donors and production services activities, in less than ideal economic circumstances. The dollar totals recorded in the financials do not tell the whole story because while there was minor erosion in revenue, there was an increase in the number of individual supporters. Corporate support (underwriting) bore the brunt of the revenue reduction as small businesses and UA units were forced to reduce operating (and marketing) expenses.

Gift revenue continues to be the leading source of the organization's funding, while planned giving and federal grants were utilized to fund a significant portion of the digital conversion project. With the digital TV and radio transitions completed, the organization's capital focus will move to address the immediate needs of the strategic plan centered on original content production, the near-term need for a new facility to support expanded production activities, and an endowment to ensure the long-term future of original program services. AZPM remains dependent on general appropriations from the University of Arizona and grants from the Corporation for Public Broadcasting for general operations.

AZPM is ultimately subject to the same economic variables that affect other public media entities (especially competition from local non-profit organizations for philanthropic support) and the general business climate as it relates to corporate underwriting, making it difficult to project future outcomes. As the economy continues to recover, the organization should begin to reap the benefits of its current efforts to build the bases of its revenue centers. Management is well aware of the challenges ahead and is working diligently and responsibly to continue to provide high quality public broadcasting and educational media services.

AZPM continues to face potentially significant economic challenges as an operating unit of a financially distressed educational institution. We are pleased with the continuing efforts to streamline operations in order to maximize efficiencies, reduce expenditures, and to provide new and vital program services to the community and University. We are especially proud that our efforts in this area are not simply reactive to current market conditions, but reflective of our culture of responsibility as custodian for precious financial resources provided to us through the generosity of our donors, corporate underwriters, and the University of Arizona.

Independent Auditor's Report

Arizona Public Media
The University of Arizona
Tucson, Arizona

We have audited the accompanying statements of net assets of Arizona Public Media ("AZPM"), a division of The University of Arizona (the "University"), as of June 30, 2010 and 2009, 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 AZPM'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 Arizona Public Media as of June 30, 2010 and 2009, 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.

The Management's Discussion and Analysis on pages 6 through 12 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 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.

Clifton Gunderson LLP

Tucson, Arizona
November 22, 2010

ARIZONA PUBLIC MEDIA
(A Division of The University of Arizona)
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2010 and 2009

Introduction and Reporting Entity

The following discussion and analysis provides an overview of the financial position and activities of Arizona Public Media (AZPM), a division of The University of Arizona (the "University" or "U of A") for the years ended June 30, 2010 and 2009. Information for the year ended June 30, 2008, 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.

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 AZPM at the end of the fiscal year and includes all assets and liabilities of AZPM. 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 AZPM. 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 AZPM'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, AZPM 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.

ARIZONA PUBLIC MEDIA
(A Division of The University of Arizona)
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2010 and 2009

CONDENSED FINANCIAL STATEMENT INFORMATION

Statement of Net Assets

A summarized comparison of AZPM's assets, liabilities and net assets at June 30, 2010, 2009, and 2008, is as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Assets			
Current assets	\$ 8,854,770	\$ 8,510,817	\$ 8,077,119
Non-current assets other than capital assets	460,434	452,894	610,449
Capital assets	<u>2,619,592</u>	<u>2,412,244</u>	<u>2,965,131</u>
Total assets	<u>\$ 11,934,796</u>	<u>\$ 11,375,955</u>	<u>\$ 11,652,699</u>
Liabilities			
Current liabilities	\$ 619,932	\$ 701,099	\$ 584,316
Non-current liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>619,932</u>	<u>701,099</u>	<u>584,316</u>
Net assets			
Invested in capital assets	2,619,592	2,412,244	2,965,131
Restricted – nonexpendable	453,584	437,008	567,094
Restricted – expendable	203,385	228,962	154,663
Unrestricted	<u>8,038,303</u>	<u>7,596,642</u>	<u>7,381,495</u>
Total net assets	<u>\$ 11,314,864</u>	<u>\$ 10,674,856</u>	<u>\$ 11,068,383</u>

For the year ended June 30, 2010, total net assets increased by \$ 640,008, or 6.0%, which is mainly due to an increased cash balance as a result of reduced expenditures and an increase in capital assets.

For the year ended June 30, 2009, total net assets decreased by \$393,527, or 3.6%, which is mainly due to unrealized losses on investments.

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.

ARIZONA PUBLIC MEDIA
(A Division of The University of Arizona)
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2010 and 2009

CONDENSED FINANCIAL STATEMENT INFORMATION (CONTINUED)

Statement of Revenues, Expenses and Changes in Net Assets

A summarized comparison of AZPM's operations for the years ended June 30, 2010, 2009, and 2008, is as follows:

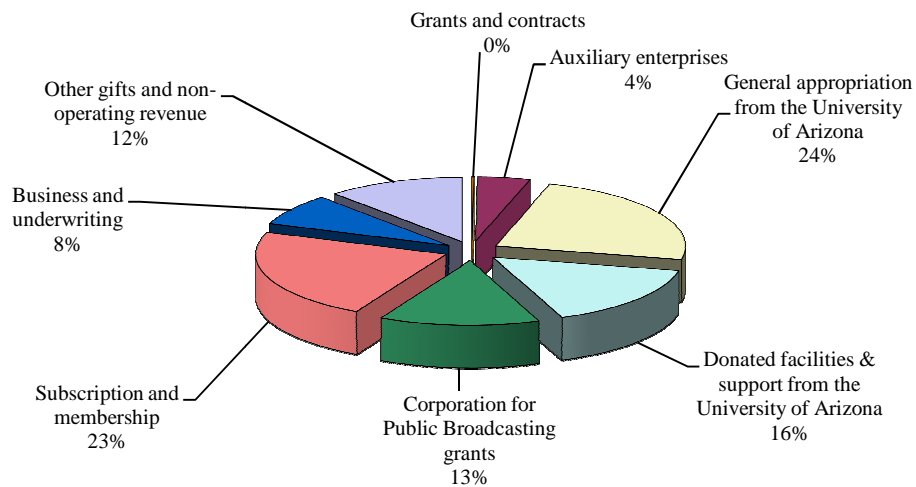
	<u>2010</u>	<u>2009</u>	<u>2008</u>
Operating revenues			
Grants and contracts	\$ 18,500	\$ 1,500	\$ 38,056
Auxiliary enterprises	<u>454,327</u>	<u>791,237</u>	<u>674,272</u>
Total operating revenues	<u>472,827</u>	<u>792,737</u>	<u>712,328</u>
Operating expenses			
Program services:			
Programming and production	5,321,989	6,060,557	5,994,984
Broadcasting	1,432,822	1,817,227	1,703,444
Public information and promotion	585,603	502,549	340,283
Support services:			
Management and general	838,810	894,296	918,053
Fundraising and membership development	<u>1,903,176</u>	<u>1,916,063</u>	<u>1,749,307</u>
Total operating expenses	<u>10,082,400</u>	<u>11,190,692</u>	<u>10,706,071</u>
Operating loss	<u>(9,609,573)</u>	<u>(10,397,955)</u>	<u>(9,993,743)</u>
Non-operating revenues			
General appropriation from the U of A	2,445,252	2,610,262	2,643,105
Donated facilities and administrative			
Support	1,619,487	1,797,065	1,706,635
Corporation for Public Broadcasting grants	1,403,848	1,255,393	1,174,070
Subscription and membership	2,347,162	2,358,233	2,147,950
Business and underwriting	805,048	1,129,750	1,056,084
Other gifts and non-operating revenues	<u>1,198,237</u>	<u>853,725</u>	<u>1,082,376</u>
Net non-operating revenues	<u>9,819,034</u>	<u>10,004,428</u>	<u>9,810,220</u>
Capital grants, gifts, and conveyances	<u>430,547</u>	<u>-</u>	<u>37,930</u>
Increase (decrease) in net assets	640,008	(393,527)	(145,593)
Net assets – beginning of year	<u>10,674,856</u>	<u>11,068,383</u>	<u>11,213,976</u>
Net assets – end of year	<u>\$ 11,314,864</u>	<u>\$ 10,674,856</u>	<u>\$ 11,068,383</u>

ARIZONA PUBLIC MEDIA
(A Division of The University of Arizona)
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2010 and 2009

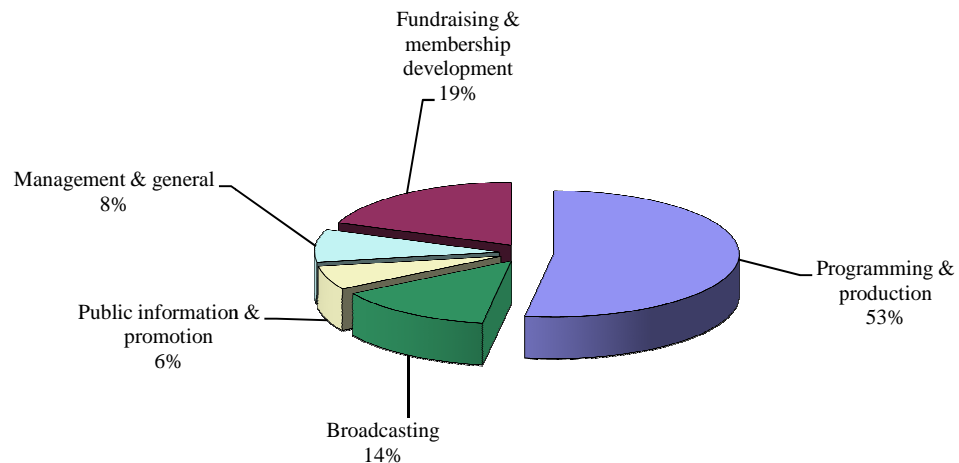
CONDENSED FINANCIAL STATEMENT INFORMATION (CONTINUED)

The following graphs illustrate the operating and non-operating revenues and expenses for the year ended June 30, 2010.

Operating & Non-operating Revenues



Operating & Non-operating Expenses

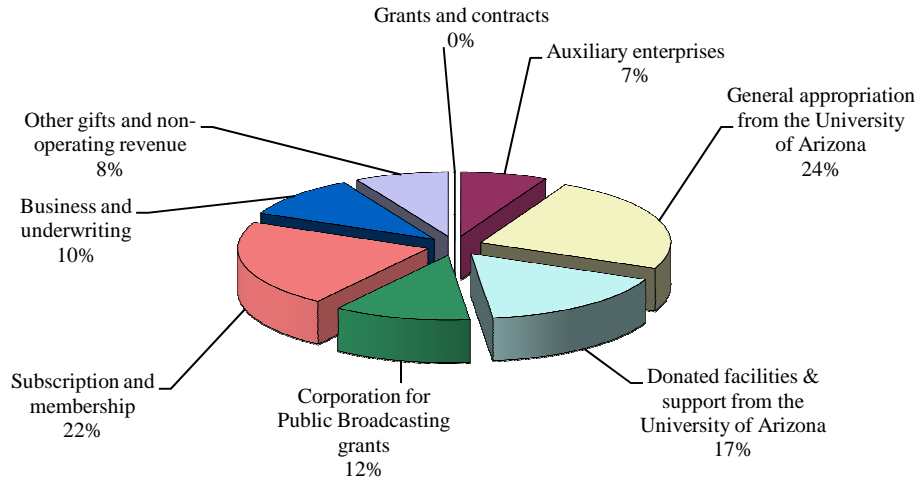


**ARIZONA PUBLIC MEDIA
(A Division of The University of Arizona)
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2010 and 2009**

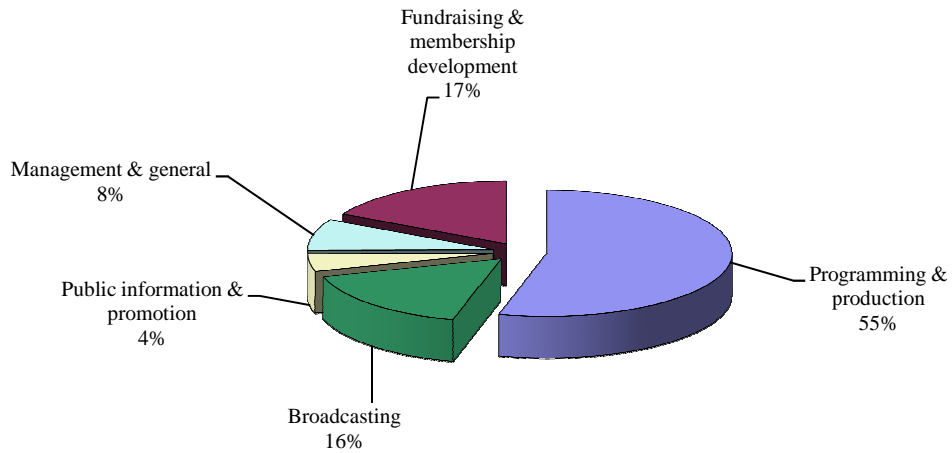
CONDENSED FINANCIAL STATEMENT INFORMATION (CONTINUED)

The following graphs illustrate the operating and non-operating revenues and expenses for the year ended June 30, 2009.

Operating & Non-operating Revenues



Operating & Non-operating Expenses



ARIZONA PUBLIC MEDIA
(A Division of The University of Arizona)
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2010 and 2009

CONDENSED FINANCIAL STATEMENT INFORMATION (CONTINUED)

Operating revenues and expenses - In fiscal year 2010, AZPM's operating revenues decreased by approximately \$319,910, or 40.3%, over fiscal year 2009. This decrease was attributable to the one time insurance recovery for the repair to the Digital tower that increased fiscal year 2009 revenues.

In fiscal year 2009, AZPM's operating revenues increased by approximately \$80,409, or 11.3%, over fiscal year 2008. This increase was attributable to the remainder of insurance recovery for repair to the Digital tower that suffered a lightning strike in August of 2007 which was included in auxiliary enterprise revenue.

In fiscal year 2010, operating expenses decreased approximately \$1,108,292, or 9.9%. Program services, which consist of programming and production, broadcasting, and public information and promotion expenses, decreased approximately \$1,039,919, or 12.4%, primarily due to the one time tower repair costs that increased fiscal year 2009 expenditures. Supporting services, which consist of management and general and fundraising and membership development expenses, decreased approximately \$68,373 or 2.4%, primarily due to cost management strategies.

In fiscal year 2009, operating expenses increased approximately \$484,621, or 4.5%. Program services, which consist of programming and production, broadcasting, and public information and promotion expenses, increased approximately \$341,622, or 4.2%, primarily due to the remaining tower repair costs and development of a new marketing plan which increased our outside advertising. Supporting services, which consist of management and general and fundraising and membership development expenses, increased approximately \$142,999 or 5.1%, primarily due to increased costs for testing methodologies of our direct mail and increase in premium costs.

Non-operating revenues – In fiscal year 2010, non-operating revenue decreased approximately \$185,394, or 1.8%. The general appropriation from The University decreased approximately \$165,010, or 6.3%. Donated facilities and administrative support (indirect administrative support) provided by The University decreased by \$177,578, or 9.8% which is the result of a decrease in direct costs. The value is calculated using the Corporation for Public Broadcasting's (CPB) Other Sponsored Activities Method. CPB grants increased by \$148,455, or 11.8% due to one time fiscal stabilization grants. Other gifts and non-operating revenues increased by approximately \$344,512, or 40.3% due to change in fair value of investments.

In fiscal year 2009, non-operating revenues increased approximately \$194,208, or 2.0%. The general appropriation from The University decreased approximately \$32,843, or 1.2%. Donated facilities and administrative support (indirect administrative support) provided by The University increased by \$90,430, or 5.3% which is the result of an increase in direct costs. The value is calculated using the Corporation for Public Broadcasting's Other Sponsored Activities Method. CPB grants increased by \$81,323, or 6.9%. Other gifts and non-operating revenues decreased by approximately \$228,651, or 21.1% due to change in fair value of investments.

**ARIZONA PUBLIC MEDIA
(A Division of The University of Arizona)
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2010 and 2009**

Capital and Debt Analysis

AZPM had \$2,619,592 and \$2,412,244 in capital assets, net of accumulated depreciation at June 30, 2010 and 2009, respectively. Title to these assets resides with The University, which allocates custody of the assets to AZPM for its operational needs.

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

Contacting AZPM

This management report is designed to provide a general overview of AZPM's finances and to show AZPM's accountability for the revenue it received. If you have other questions on this report or need additional information, contact the Chief Financial Officer at Arizona Public Media, P.O. Box 210067, Tucson, AZ 85721 or call (520)-621-KUAT.

ARIZONA PUBLIC MEDIA
(A Division of the University of Arizona)
STATEMENT OF NET ASSETS
June 30, 2010 and 2009

ASSETS	<u>2010</u>	<u>2009</u>
CURRENT ASSETS		
Cash and cash equivalents		
Held by the University of Arizona	\$ 6,911,118	\$ 6,761,821
Held by the University of Arizona Foundation	1,207,907	949,218
Accounts receivable, net	491,274	646,630
Government grants receivable	115,780	-
Bequests receivable	-	69,133
Prepaid expenses	<u>128,691</u>	<u>84,015</u>
Total current assets	<u>8,854,770</u>	<u>8,510,817</u>
NON-CURRENT ASSETS		
Endowment investments	453,584	437,008
Bequests receivable	-	6,000
Prepaid expenses	6,850	9,886
Capital assets, net	<u>2,619,592</u>	<u>2,412,244</u>
Total non-current assets	<u>3,080,026</u>	<u>2,865,138</u>
TOTAL ASSETS	<u>11,934,796</u>	<u>11,375,955</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	48,358	111,002
Accrued payroll and benefits	247,193	236,301
Compensated absences	298,790	312,379
Deferred revenue and deposits	<u>25,591</u>	<u>41,417</u>
Total current liabilities	<u>619,932</u>	<u>701,099</u>
NET ASSETS		
Invested in capital assets	2,619,592	2,412,244
Restricted for:		
Nonexpendable - endowments	453,584	437,008
Expendable - station programs and capital projects	203,385	228,962
Unrestricted	<u>8,038,303</u>	<u>7,596,642</u>
Total net assets	<u>\$ 11,314,864</u>	<u>\$ 10,674,856</u>

The accompanying notes are an integral part of the financial statements.

ARIZONA PUBLIC MEDIA
(A Division of the University of Arizona)
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
OPERATING REVENUE		
Federal grants, contracts and appropriations	\$ 18,500	\$ 1,500
Auxiliary enterprises	<u>454,327</u>	<u>791,237</u>
Total operating revenues	<u>472,827</u>	<u>792,737</u>
OPERATING EXPENSES		
Program services:		
Programming and production	5,321,989	6,060,557
Broadcasting	1,432,822	1,817,227
Public information and promotion	585,603	502,549
Supporting services:		
Management and general	838,810	894,296
Fundraising and membership development	<u>1,903,176</u>	<u>1,916,063</u>
Total operating expenses	<u>10,082,400</u>	<u>11,190,692</u>
Operating loss	<u>(9,609,573)</u>	<u>(10,397,955)</u>
NON-OPERATING REVENUE (EXPENSE)		
General appropriation from the U of A	2,445,252	2,610,262
Donated facilities and administrative support from the U of A	1,619,487	1,797,065
Corporation for public broadcasting grants	1,403,848	1,255,393
Subscription and membership income	2,347,162	2,358,233
Business and underwriting	805,048	1,129,750
Legacies and bequests	558,583	740,544
Other gifts	45,548	11,060
In-kind contributions	21,257	-
Investment income (loss)	174,268	(379,069)
Other non-operating revenues	402,587	491,944
Other non-operating expenses	<u>(4,006)</u>	<u>(10,754)</u>
Net non-operating revenue	<u>9,819,034</u>	<u>10,004,428</u>
Capital grants, gifts, and conveyances	<u>430,547</u>	<u>-</u>
INCREASE (DECREASE) IN NET ASSETS	640,008	(393,527)
NET ASSETS, BEGINNING OF YEAR	<u>10,674,856</u>	<u>11,068,383</u>
NET ASSETS, END OF YEAR	<u>\$ 11,314,864</u>	<u>\$ 10,674,856</u>

The accompanying notes are an integral part of the financial statements.

ARIZONA PUBLIC MEDIA
(A Division of the University of Arizona)
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Grants and contracts receipts	\$ (132,347)	\$ 36,567
Payments for salaries, wages and benefits	(4,761,587)	(5,102,532)
Payments to suppliers	(2,979,657)	(3,687,731)
Auxiliary enterprise receipts	<u>438,381</u>	<u>811,132</u>
Net cash used in operating activities	<u>(7,435,210)</u>	<u>(7,942,564)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
General appropriations from the U of A Corporation for public broadcasting grants	2,445,252	2,610,262
Gifts and grants for other than capital purposes	<u>1,403,848</u>	<u>1,255,393</u>
	<u>4,142,354</u>	<u>4,861,617</u>
Net cash provided by non-capital financing activities	<u>7,991,454</u>	<u>8,727,272</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Capital grants and gifts received	430,547	-
Purchases of capital assets	<u>(753,073)</u>	<u>(85,328)</u>
Net cash used by capital financing activities	<u>(322,526)</u>	<u>(85,328)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Sales (purchases) of investments, net	87,076	(466,418)
Interest and dividends on investments	<u>87,192</u>	<u>87,349</u>
Net cash used in investing activities	<u>174,268</u>	<u>(379,069)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	407,986	320,311
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>7,711,039</u>	<u>7,390,728</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 8,119,025</u>	<u>\$ 7,711,039</u>

Continued

ARIZONA PUBLIC MEDIA
(A Division of the University of Arizona)
STATEMENTS OF CASH FLOWS (CONTINUED)
Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	\$ (9,609,573)	\$ (10,397,955)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation	562,976	627,461
Donated facilities and administrative support	1,619,487	1,797,065
Effects of changes in operating assets and liabilities:		
Accounts, grants, and bequests receivable	114,710	(136,280)
Prepaid expenses	(41,640)	50,362
Accounts payable	(62,644)	52,454
Accrued payroll benefits and compensated absences	(2,697)	22,912
Deferred revenue and deposits	<u>(15,826)</u>	<u>41,417</u>
Net cash used in operating activities	<u>\$ (7,435,207)</u>	<u>\$ (7,942,564)</u>
	3	
SUPPLEMENTAL NON-CASH TRANSACTIONS		
Loss on disposal of capital assets	\$ (4,006)	\$ (10,754)
In-kind contribution of capital assets	\$ 21,257	\$ -
Unrealized gain (loss) in fair value of investments:		
Quasi-endowments, included in cash and cash equivalents held by the University of Arizona	\$ 70,769	\$ (325,585)
Endowments	\$ 16,307	\$ (130,086)
Realized loss in fair value of investments	\$ -	\$ (10,747)

The accompanying notes are an integral part of the financial statements.

ARIZONA PUBLIC MEDIA
(A Division of the University of Arizona)
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Purpose

Arizona Public Media (“AZPM”) 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 also provides a production and distribution service, which operates an Education 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 Arizona Public Media. Fiscal responsibility remains with The University of Arizona.

The financial statements are presented in accordance with accounting principles generally accepted in the United States of America (“GAAP”) applicable to governmental colleges and universities engaged in business-type activities as promulgated by the Governmental Accounting Standards Board (“GASB”). AZPM follows Financial Accounting Standards Board (“FASB”) Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, Accounting Research Bulletins, and the Financial Reporting Guidelines published by the Corporation for Public Broadcasting (“CPB”), unless those pronouncements conflict with GASB pronouncements.

For the year ended June 30, 2010, the University and AZPM implemented the provisions of GASB Statement No. 51, Accounting and Financial Reporting for Intangible Assets, and No. 53, Accounting and Financial Reporting for Derivative Instruments. GASB Statement No 51 establishes standards for accounting and financial reporting for intangible assets for all state and local governments. GASB Statement No. 53 establishes accounting and financial reporting standards for all state and local governments that enter into derivative instruments. The implementation of GASB Statement Nos. 51 and 53 had no effect on fiscal year 2010 financial statement amounts and therefore no additional note disclosures were required.

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 AZPM 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.

ARIZONA PUBLIC MEDIA
(A Division of the University of Arizona)
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

- The Statement of Revenues, Expenses, and Changes in Net Assets provides information about AZPM'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 AZPM 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 loss on disposal of capital assets.
- The Statement of Cash Flows provides information about AZPM'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 economic resources measurement focus and the accrual basis of accounting. AZPM eliminates all internal activity.

Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make a number of 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 AZPM. 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 AZPM by the Foundation. The balance is due to AZPM 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.

ARIZONA PUBLIC MEDIA
(A Division of the University of Arizona)
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Endowment Investments

Endowment assets have been donated to AZPM and are permanently restricted by the donor. Endowment assets are held and invested by the University and the Foundation. With respect to AZPM, these investments represent external investment pools. The investment pools include investments in various stocks, bonds, fixed income securities, real estate, and commodities. As of June 30, 2010 and 2009, 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 fair value, and realized and unrealized gains and losses are reflected as non-operating revenues and expenses in the statements of revenues, expenses, and changes in net assets.

The following is the spending policy for investments held at the University: Arizona State law permits the University to expend the entire net appreciation of endowment fund investments. When determining the spending rate for endowment funds, the Investment Committee and University administration consider long-and short-term needs, total investment return and price level trends, and general economic conditions. For fiscal year 2010, the expendable rate was established at 4% of the three - year average market value ending December 31, 2008

The following is the spending policy for investments held at the Foundation: The Foundation's policy is to payout a percentage of the average fair value of the corpus of an endowment at the calendar year-end of the three previous years. When determining the spending rate for endowment funds, the Investment Committee considers actual return on the investments, current payout rate, payout rates established by other university endowments, and general economic conditions. For fiscal year 2010, the expendable rate was established at 4%.

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, fixtures, and equipment (FF&E)	7 years

Estimated useful lives of assets outside of the above classes are based on their estimated useful lives. Interest is capitalized in connection with the construction of major facilities. 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 operating 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.

ARIZONA PUBLIC MEDIA
(A Division of the University of Arizona)
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition(Continued)

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

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

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

Revenue related to program underwriting is recognized as unrestricted non-operating 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 non-operating 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. AZPM records donor-restricted gifts that have not been expended in the current year as restricted net assets.

Deferred Revenue

Prepayments of underwriting contracts 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 statements 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

AZPM 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. AZPM'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 corporate income taxes in the accompanying financial statements. Management is not aware of any matters which would cause the University or AZPM to lose its tax-exempt status.

ARIZONA PUBLIC MEDIA
(A Division of the University of Arizona)
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 2 – DEPOSITS AND INVESTMENTS

At June 30, 2010 and 2009, the AZPM deposits totaling \$8,119,025 and \$7,711,039, respectively, were held by both the University and University of Arizona Foundation. At June 30, 2010 and 2009, AZPM's investments totaling \$453,584 (\$58,578 with the University and \$395,006 with the Foundation) and \$437,008 (\$55,400 with the University and \$381,608 with the Foundation), respectively, were pooled with University of Arizona Foundation investments.

The University of Arizona Foundation invests in U.S. Treasury, U.S. agencies, commercial paper, corporate bonds, and equities. A summary of the University's risk policies for deposits and investments follows:

Interest Rate Risk

The University's investment policy for the operating funds limits a significant proportion, although not a fixed percentage, of the portfolio to authorized securities with maturities of one year or less. Also, the maximum maturity of any fixed rate issue may not exceed three years and the final maturity of any floating rate issue may not exceed five years. The capital projects and endowment funds portfolios have no such limitation.

Credit Risk

With regard to credit risk, University policy mirrors that of the Board in that it restricts investment of the operating and capital projects funds to be collateralized certificates of deposit and repurchase agreements, United States Treasury securities and other federal agency securities or the State Treasurer's investment pool. University policy also dictates that government debt securities must be used to collateralize certificates of deposit and repurchase agreements to conform to statute. When investing endowment funds, University policy requires corporate bonds and notes to be of investment grade quality, rated Baa or higher by Moody's Investor Service, at the time of purchase.

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of bank failure, AZPM's deposits may not be returned to it. University policy for its operating funds requires collateralization for all certificates of deposit and repurchase agreements. Beyond this requirement and those established by Statute or the Board, the University does not have a policy that specifically addresses custodial credit risk. As of June 30, 2010 and 2009, \$1,207,907 and \$949,218, respectively, of AZPM's bank balances with the University of Arizona Foundation was exposed to custodial credit risk because the amounts were not insured or collateralized.

Custodial Credit Risk – Investments

For an investment, this is the risk that in the event of failure of the counterparty, AZPM will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. University policy requires collateralization for all certificates of deposit and repurchase agreements held in the Controller's demand deposit account. Beyond this requirement and those established by Statute or the Board, the University does not have a policy that specifically addresses custodial credit risk. AZPM's investments are pooled with the University of Arizona Foundation's investments. As of June 30, 2010 and 2009, \$395,006 and \$381,608, respectively, of AZPM's investments are exposed to custodial credit risk in that separate pertinent identifying information has not been obtained from the University of Arizona Foundation.

ARIZONA PUBLIC MEDIA
(A Division of the University of Arizona)
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 3 – INDIVIDUAL STATION FINANCIAL INFORMATION

	<u>KUAT-TV</u>	<u>KUAT-FM</u>	<u>KUAZ</u>	<u>2010 Combined Total</u>	<u>2009 Combined Total</u>
Assets					
Current assets:					
Cash and cash equivalents					
Funds held by the U of A	\$ 4,742,413	\$ 851,566	\$ 1,317,139	\$ 6,911,118	\$ 6,761,821
Funds held by the U of A Foundation	806,252	194,485	207,170	1,207,907	949,218
Accounts receivable (net of allowance of \$97,000 in 2010 and \$105,000 in 2009)	176,683	31,194	283,397	491,274	646,630
Government grants receivable	115,780	-	-	115,780	-
Bequests receivable	-	-	-	-	69,133
Prepaid expenses	42,605	7,250	78,836	128,691	84,015
Due from other funds	<u>528,469</u>	<u>369,206</u>	<u>(897,675)</u>	<u>-</u>	<u>-</u>
Total current assets	<u>6,412,202</u>	<u>1,453,701</u>	<u>988,867</u>	<u>8,854,770</u>	<u>8,510,817</u>
Non-current assets:					
Endowment investments	5,783	223,900	223,901	453,584	437,008
Bequests receivable	-	-	-	-	6,000
Prepaid expenses	6,850	-	-	6,850	9,886
Capital assets, net	<u>2,221,770</u>	<u>3,607</u>	<u>394,215</u>	<u>2,619,592</u>	<u>2,412,244</u>
Total non-current assets	<u>2,234,403</u>	<u>227,507</u>	<u>618,116</u>	<u>3,080,026</u>	<u>2,865,138</u>
Total assets	<u>8,646,605</u>	<u>1,681,208</u>	<u>1,606,983</u>	<u>11,934,796</u>	<u>11,375,955</u>
Liabilities					
Current liabilities:					
Accounts payable	33,077	1,146	14,135	48,358	111,002
Accrued payroll and benefits	160,069	33,133	53,991	247,193	236,301
Accrued compensated absences	206,609	36,177	56,004	298,790	312,379
Deferred revenue and deposits	<u>2,250</u>	<u>1,493</u>	<u>21,848</u>	<u>25,591</u>	<u>41,417</u>
Total current liabilities	<u>402,005</u>	<u>71,949</u>	<u>145,978</u>	<u>619,932</u>	<u>701,099</u>
Net assets					
Invested in capital assets	2,221,770	3,607	394,215	2,619,592	2,412,244
Restricted for:					
Nonexpendable – endowments	5,783	223,900	223,901	453,584	437,008
Expendable – station programs/ projects	196,284	8,212	(1,111)	203,385	228,962
Unrestricted	<u>5,820,763</u>	<u>1,373,540</u>	<u>844,000</u>	<u>8,038,303</u>	<u>7,596,642</u>
Total net assets	<u>\$ 8,244,600</u>	<u>\$ 1,609,259</u>	<u>\$ 1,461,005</u>	<u>\$ 11,314,864</u>	<u>\$ 10,674,856</u>

ARIZONA PUBLIC MEDIA
(A Division of the University of Arizona)
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 3 – INDIVIDUAL STATION FINANCIAL INFORMATION (CONTINUED)

	<u>KUAT-TV</u>	<u>KUAT-FM</u>	<u>KUAZ</u>	<u>2010 Combined Total</u>	<u>2009 Combined Total</u>
Operating revenues					
Federal grants, contracts, and appropriations	\$ 18,500	\$ -	\$ -	\$ 18,500	\$ 1,500
Auxiliary enterprises	<u>439,641</u>	<u>7,343</u>	<u>7,343</u>	<u>454,327</u>	<u>791,237</u>
Total operating revenues	<u>458,141</u>	<u>7,343</u>	<u>7,343</u>	<u>472,827</u>	<u>792,737</u>
Operating expenses					
Program services:					
Programming and production	3,755,230	391,395	1,175,364	5,321,989	6,060,557
Broadcasting	1,216,204	97,626	118,992	1,432,822	1,817,227
Public information and promotion	329,938	123,766	131,899	585,603	502,549
Supporting services:					
Management and general	571,582	120,764	146,464	838,810	894,296
Fundraising and membership development	<u>886,629</u>	<u>399,101</u>	<u>617,446</u>	<u>1,903,176</u>	<u>1,916,063</u>
Total operating expenses	<u>6,759,583</u>	<u>1,132,652</u>	<u>2,190,165</u>	<u>10,082,400</u>	<u>11,190,692</u>
Operating loss	<u>(6,301,442)</u>	<u>(1,125,309)</u>	<u>(2,182,822)</u>	<u>(9,609,573)</u>	<u>(10,397,955)</u>
Non-operating revenues (expenses)					
General appropriation from UA	1,786,701	278,171	380,380	2,445,252	2,610,262
Donated facilities and administrative support from UA	1,060,014	191,806	367,667	1,619,487	1,797,065
CPB grants	1,070,543	-	333,305	1,403,848	1,255,393
Subscription and membership income	1,462,449	379,461	505,252	2,347,162	2,358,233
Business and underwriting	280,211	47,076	477,761	805,048	1,129,750
Legacies and bequests	404,789	67,737	86,057	558,583	740,544
Other gifts	30,047	6,463	9,038	45,548	11,060
In-kind contributions	21,257	-	-	21,257	-
Investment income (loss)	95,111	51,503	27,654	174,268	(379,069)
Other non-operating revenues	346,880	11,539	44,168	402,587	491,944
Other non-operating expenses	<u>(4,006)</u>	<u>-</u>	<u>-</u>	<u>(4,006)</u>	<u>(10,754)</u>
Net non-operating revenues	<u>6,553,996</u>	<u>1,033,756</u>	<u>2,231,282</u>	<u>9,819,034</u>	<u>10,004,428</u>
Gain (loss) before capital additions	252,554	(91,553)	48,460	209,461	(393,527)
Capital grants, gifts, and conveyances	<u>360,547</u>	<u>-</u>	<u>70,000</u>	<u>430,547</u>	<u>-</u>
Increase (decrease) in net assets	613,101	(91,553)	118,460	640,008	(393,527)
Net assets					
Net assets, beginning of year	<u>7,631,499</u>	<u>1,700,812</u>	<u>1,342,545</u>	<u>10,674,856</u>	<u>11,068,383</u>
Net assets, end of year	<u>\$ 8,244,600</u>	<u>\$ 1,609,259</u>	<u>\$ 1,461,005</u>	<u>\$ 11,314,864</u>	<u>\$ 10,674,856</u>

ARIZONA PUBLIC MEDIA
(A Division of the University of Arizona)
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 4 – 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>2010 Total</u>	<u>2009 Total</u>
Subscription and membership, net	\$ 3,042	\$ (319)	\$ (204)	\$ 2,519	\$ 25,710
Underwriting and business	157,061	30,865	282,953	470,879	618,990
Auxiliary enterprises	<u>16,580</u>	<u>648</u>	<u>648</u>	<u>17,876</u>	<u>1,930</u>
	<u>\$ 176,683</u>	<u>\$ 31,194</u>	<u>\$ 283,397</u>	<u>\$ 491,274</u>	<u>\$ 646,630</u>

NOTE 5 – RELATED PARTY TRANSACTIONS

Arizona Public Media is a division of the University that operates public television and radio stations. The accompanying financial statements include only the transactions specific to AZPM and do not include other transactions of the University.

AZPM receives a portion of its revenues and support from the University in the form of a general appropriation totaling \$2,445,252 and \$2,610,262 for operation purposes for the years ended June 30, 2010 and 2009, respectively.

AZPM 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 AZPM stations are owned by the University and used by AZPM. 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, totaled \$1,619,487 and \$1,797,065 for the years ended June 30, 2010 and 2009, respectively.

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

ARIZONA PUBLIC MEDIA
(A Division of the University of Arizona)
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 6 – CAPITAL ASSETS

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

	Beginning Balance <u>July 1, 2009</u>	<u>Additions</u>	<u>Retirements</u>	Ending Balance <u>June 30, 2010</u>
Transmission, antenna, and tower	\$ 2,747,141	\$ 197,756	\$ (8,584)	\$ 2,936,313
Studio, equipment, FF&E	<u>5,599,955</u>	<u>576,574</u>	<u>(180,930)</u>	<u>5,995,599</u>
Total depreciable capital assets	<u>8,347,096</u>	<u>774,330</u>	<u>(189,514)</u>	<u>8,931,912</u>
Less: accumulated depreciation				
Transmission, antenna, and tower	1,474,439	157,724	(5,151)	1,627,012
Studio, equipment, FF&E	<u>4,460,413</u>	<u>405,252</u>	<u>(180,357)</u>	<u>4,685,308</u>
Total accumulated depreciation	<u>5,934,852</u>	<u>562,976</u>	<u>(185,508)</u>	<u>6,312,320</u>
Capital assets, net	<u>\$ 2,412,244</u>	<u>\$ 211,354</u>	<u>\$ (4,006)</u>	<u>\$ 2,619,592</u>
	Beginning Balance <u>July 1, 2008</u>	<u>Additions</u>	<u>Retirements</u>	Ending Balance <u>June 30, 2009</u>
Transmission, antenna, and tower	\$ 2,729,616	\$ 17,525	\$ -	\$ 2,747,141
Studio, equipment, FF&E	<u>5,639,983</u>	<u>67,803</u>	<u>(107,831)</u>	<u>5,599,955</u>
Total depreciable capital assets	<u>8,369,599</u>	<u>85,328</u>	<u>(107,831)</u>	<u>8,347,096</u>
Less: accumulated depreciation				
Transmission, antenna, and tower	1,322,689	151,750	-	1,474,439
Studio, equipment, FF&E	<u>4,081,779</u>	<u>475,711</u>	<u>(97,077)</u>	<u>4,460,413</u>
Total accumulated depreciation	<u>5,404,468</u>	<u>627,461</u>	<u>(97,077)</u>	<u>5,934,852</u>
Capital assets, net	<u>\$ 2,965,131</u>	<u>\$ (542,133)</u>	<u>\$ (10,754)</u>	<u>\$ 2,412,244</u>

Depreciation expense totaled \$562,976 and \$627,461 for the years ended June 30, 2010 and 2009, respectively. AZPM has purchased transmission and studio assets with grants from the Public Telecommunications Facilities Program ("PTFP") with an original cost of \$3,429,665 and with a net book value of \$1,115,609. 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.

ARIZONA PUBLIC MEDIA
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NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 7 – RETIREMENT PLANS

As part of the University, AZPM participates in one cost-sharing multiple-employer defined benefit pension plan and four defined contribution pension plans.

Defined Benefit Plan

Plan Description. The Arizona State Retirement System (ASRS) administers a cost-sharing multiple-employer defined benefit pension plan that covers employees of the state of Arizona, including University employees, and employees of participating political subdivisions and school districts. Benefits are established by State statute. The ASRS provides retirement, death, and survivor benefits through its Retirement Fund; health insurance premium benefits (i.e., a monthly subsidy) through its Health Benefit Supplement Fund; and long-term disability benefits through its Long-Term Disability Fund. The ASRS is governed by the Arizona State Retirement System Board according to the provisions of ARS Title 38, Chapter 5, Article 2. The ASRS issues a publicly available comprehensive annual financial report that includes its financial statements and required supplementary information. That report may be obtained by writing to the ASRS, 3300 North Central Avenue, PO Box 33910, Phoenix, Arizona 85067-3910, or by calling (602) 240-2000 or (800) 621-3778.

Funding Policy. For the year ended June 30, 2010, active ASRS members were required to contribute at the actuarially determined rate of 9.40 percent (9.00 percent retirement and .40 percent long-term disability) of the members' annual covered payroll. The University was required to contribute at the actuarially determined rate of 9.40 percent (8.34 percent for retirement, .66 percent for health insurance premium, and .40 percent for long-term disability) of the members' annual covered payroll. For the year ended June 30, 2009, active ASRS members were required to contribute at the actuarially determined rate of 9.45 percent (8.95 percent retirement and .50 percent long-term disability) of the members' annual covered payroll. The University was required to contribute at the actuarially determined rate of 9.45 percent (7.99 percent for retirement, .96 percent for health insurance premium, and .50 percent for long-term disability) of the members' annual covered payroll. The Arizona State Legislature establishes and may amend active plan members' and the University's contribution rates.

AZPM's retirement plan expense for this plan approximated \$133,368, \$153,412, and \$156,201 for the years ended June 30, 2010, 2009, and 2008, respectively.

Defined Contribution Plans

Plan Description. In accordance with ARS §15-1628, University faculty, academic professionals, and administrative officers have the option to participate in defined contribution pension plans. For the years ended June 30, 2010 and 2009, plans offered by the Teachers Insurance Annuity Association/College Retirement Equities Fund (TIAA/CREF), Variable Annuity Life Insurance Company (VALIC), and Fidelity Investments Tax-Exempt Services Company (Fidelity) were approved by the Arizona Board of Regents. In addition, employees hired before July 1, 1972, have the option to participate in the defined contribution plan administered by the ASRS. Benefits under these plans depend solely on the contributed amounts and the returns earned on investments of those contributions. Contributions made by members vest immediately; University contributions vest after five years of full-time employment.

ARIZONA PUBLIC MEDIA
(A Division of the University of Arizona)
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 7 – RETIREMENT PLANS (CONTINUED)

Plan Description (Continued) Member and University contributions and associated returns earned on investments may be withdrawn upon termination of employment, death, or retirement. The distribution of member contributions and associated investment earnings are made in accordance with the member's contract with the applicable insurance and annuity company.

Funding Policy. The Arizona State Legislature establishes the contribution rates for active plan members and the University. For the year ended June 30, 2010, plan members and the University were each required by statute to contribute an amount equal to 7.00 percent of a member's compensation, except for a 7.40 percent member contribution and an 8.06 percent University contribution for the ASRS plan. For the year ended June 30, 2009, plan members and the University were each required by statute to contribute an amount equal to 7 percent of a member's compensation, except for a 7.50 percent member contribution and an 8.46 percent University contribution for the ASRS plan.

AZPM's retirement plan expense for the plan approximated \$139,204, \$136,616, and \$120,631 for the years ended June 30, 2010, 2009, and 2008, respectively.

NOTE 8 – RESTRICTIONS ON NET ASSETS

AZPM 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:

	<u>KUAT-TV</u>	<u>KUAT-FM</u>	<u>KUAZ</u>	<u>2010 Total</u>	<u>2009 Total</u>
Non-expendable – endowments:					
Radio Production NEA challenge	\$ -	\$ 223,900	\$ 223,901	\$ 447,801	\$ 431,665
Television endowment	<u>5,783</u>	<u>-</u>	<u>-</u>	<u>5,783</u>	<u>5,343</u>
	<u>5,783</u>	<u>223,900</u>	<u>223,901</u>	<u>453,584</u>	<u>437,008</u>
Expendable – station programs/projects:					
Ready to Learn support	(2,919)	-	-	(2,919)	11,434
Desert Speaks support	60,695	-	-	60,695	58,574
Desert Speaks/local production support	97,057	-	-	97,057	113,153
Great Voices Radio Series support	-	9,323	-	9,323	9,323
Program acquisition/production	5,000	(1,111)	(1,111)	2,778	27
Operational support excluding administrative costs	<u>36,451</u>	<u>-</u>	<u>-</u>	<u>36,451</u>	<u>36,451</u>
Total station programs/projects	<u>196,284</u>	<u>8,212</u>	<u>(1,111)</u>	<u>203,385</u>	<u>228,962</u>
	<u>\$ 202,067</u>	<u>\$ 232,112</u>	<u>\$ 222,790</u>	<u>\$ 656,969</u>	<u>\$ 665,970</u>

In addition, management had designated \$9,860 of unrestricted funds at June 30, 2008 which were expended in 2009 for digital television conversion.

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NOTE 9 – 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>2010 Total</u>	<u>2009 Total</u>
Interest and dividends	\$ 45,924	\$ 26,341	\$ 14,927	\$ 87,192	\$ 87,349
Net realized gain (loss) on investments	-	-	-	-	(10,747)
Net unrealized gain (loss) on investments	<u>49,187</u>	<u>25,162</u>	<u>12,727</u>	<u>87,076</u>	<u>(455,671)</u>
	<u>\$ 95,111</u>	<u>\$ 51,503</u>	<u>\$ 27,654</u>	<u>\$ 174,268</u>	<u>\$ (379,069)</u>

This information is an integral part of the accompanying financial statements.

SUPPLEMENTAL SCHEDULE

ARIZONA PUBLIC MEDIA
SCHEDULES OF OPERATING AND NON-OPERATING FUNCTIONAL EXPENSES
Year Ending June 30, 2010

	Program Services				Supporting Services			2010	2009
	Programming and Production	Broadcasting	Public Info and Promotion	Total Program Services	Management and General	Fundraising and Membership Development	Total Supporting Services	Combined Total Expenses	Combined Total Expenses
KUAT - TV									
Salaries	\$ 1,591,071	\$ 664,179	\$ 185,729	\$ 2,440,979	\$ 432,346	\$ 304,419	\$ 736,765	\$ 3,177,744	\$ 3,345,493
General operations	1,182,021	194,925	97,664	1,474,610	53,284	442,046	495,330	1,969,940	2,574,632
Travel and training	14,975	2,844	2,316	20,135	1,319	1,663	2,982	23,117	14,354
Indirect administration support	571,650	221,001	44,229	836,880	84,633	138,501	223,134	1,060,014	1,216,570
Depreciation	395,513	133,255	-	528,768	-	-	-	528,768	600,299
Total KUAT-TV expenses	<u>3,755,230</u>	<u>1,216,204</u>	<u>329,938</u>	<u>5,301,372</u>	<u>571,582</u>	<u>886,629</u>	<u>1,458,211</u>	<u>6,759,583</u>	<u>7,751,348</u>
KUAT - FM									
Salaries	226,816	73,785	77,453	378,054	80,247	146,259	226,506	604,560	799,665
General operations	73,038	9,307	31,457	113,802	18,531	196,530	215,061	328,863	330,055
Travel and training	58	-	535	593	638	985	1,623	2,216	2,437
Indirect administration support	87,758	13,053	14,321	115,132	21,348	55,327	76,675	191,807	232,092
Depreciation	3,725	1,481	-	5,206	-	-	-	5,206	5,053
Total KUAT-FM expenses	<u>391,395</u>	<u>97,626</u>	<u>123,766</u>	<u>612,787</u>	<u>120,764</u>	<u>399,101</u>	<u>519,865</u>	<u>1,132,652</u>	<u>1,369,302</u>
KUAZ									
Salaries	441,328	66,135	81,367	588,830	94,552	279,615	374,167	962,997	978,872
General operations	529,335	15,506	31,649	576,490	20,527	231,163	251,690	828,180	715,914
Travel and training	101	-	536	637	648	1,035	1,683	2,320	4,745
Indirect administration support	198,585	14,364	18,347	231,296	30,737	105,633	136,370	367,666	348,402
Depreciation	6,015	22,987	-	29,002	-	-	-	29,002	22,109
Total KUAZ expenses	<u>1,175,364</u>	<u>118,992</u>	<u>131,899</u>	<u>1,426,255</u>	<u>146,464</u>	<u>617,446</u>	<u>763,910</u>	<u>2,190,165</u>	<u>2,070,042</u>
TOTAL EXPENSES	<u>\$ 5,321,989</u>	<u>\$ 1,432,822</u>	<u>\$ 585,603</u>	<u>\$ 7,340,414</u>	<u>\$ 838,810</u>	<u>\$ 1,903,176</u>	<u>\$ 2,741,986</u>	<u>\$ 10,082,400</u>	<u>\$ 11,190,692</u>