

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

FINANCIAL STATEMENTS
June 30, 2012 and 2011

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A MESSAGE FROM THE GENERAL MANAGER

Fiscal Year 2012 saw Arizona Public Media® (AZPM) focus its efforts on expanding services to the community as management and staff implement the tactical portion of AZPM's five-year strategic plan, which is designed to best position the organization for the future in a rapidly evolving media environment, and strengthen its connection with the community and the University of Arizona.

AZPM's flagship television channel, *PBS 6*, continues to outperform the national average for PBS stations, ranking among the top 10 PBS stations for prime time audience and cumulative (unduplicated) audience¹. AZPM's increased focus on in-depth news and public affairs is especially evident on Friday nights, which are anchored by the local productions *Arizona Illustrated Political Roundtable* and *Arizona Week*. The *Hollywood at Home* film series, added to the Saturday night schedule to build new audiences, has become one of AZPM's top rated programs each week. *ReadyTV*, AZPM's 24-hour lifelong learning channel, launched in October 2011, features do-it-yourself, creative arts, travel, and culinary shows programmed specifically for the Southern Arizona audience, and its audience ratings have already eclipsed those of its predecessor, *Create*. The *PBS Kids* channel continued to gain viewers as well, increasing audience reach and prime time viewing significantly.

AZPM's original television productions were recognized with 14 Emmy® Award nominations, more than any other public television station in the Rocky Mountain region. The nominations recognized just some of the achievements of AZPM's talented and creative staff, and the stories they produce. Among the original productions completed this year were *Together We Heal*, commemorating the one-year anniversary of the tragic events of January 8, 2011; *Seeking Water from the Sun*, a profile of a University of Arizona, Navajo and Bureau of Reclamation project; *The Dry Run: Prohibition in Arizona*, which explored the effects of Prohibition in Southern Arizona, and several radio special series including *The Five C's: A Century Later* and *Collecting Light: An Exploration of Arizona Astronomy*.

NPR 89.1 added weekend newscasts to its schedule to keep its listeners updated on local and State news seven days a week as part of its public service mission. At a time when many radio stations are moving away from classic music due to audience erosion, Classical 90.5 continues not only to broadcast classical music around the clock, but to produce its own weekly *Community Concerts* series throughout the year.

AZPM's Online and New Media division is flourishing, reaching new audiences through unique stories posted on AZPM's websites as well as through social media, including Facebook and Twitter. *PBS LearningMedia*, a new national initiative that provides free teacher access to the vast media resources of PBS in the classroom for all ages, was launched by AZPM in Southern Arizona in collaboration with KAET8/Phoenix.

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,



¹Trac Media Services

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 informational and educational services available online.

KUAT and KUAS are television stations affiliated with the Public Broadcasting Service (PBS) and broadcast via digital transmitters strategically located to cover a broad portion of southeastern Arizona. Both stations 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, *ReadyTV* and *V-me* on KUAT, and *PBS Kids* and *World* on KUAS. Tucson's two major cable television providers, Cox and Comcast, offer their subscribers all AZPM program TV offerings.

AZPM manages and operates 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 90.5* (KUAT-FM), which broadcasts via its main transmitter from Mt. Bigelow and five translators throughout Southern Arizona. *Classical 90.5* provides classical music 24 hours a day, along with NPR and AZPM newscasts.

Sister stations KUAZ (FM 89.1/1550 AM) provide local and national news and public affairs programming throughout the day from National Public Radio (NPR) and the AZPM news division. KUAZ-HD2 broadcasts programming from the *BBC World Service*, the world's most comprehensive source for international news.

NPR 89.1 broadcasts 24 hours a day from transmitters at Tumamoc Hill in Tucson and during daylight hours from Cortaro Road (1550 AM) in Marana, and via one FM translator in Sierra Vista. In the evenings the station provides jazz music programming, followed in the early morning hours with news from the *BBC World Service*. The AZPM news team provides multiple news breaks, feature stories and other reports of interest throughout each weekday as well as *In-Depth Arizona* features broadcast weekdays during NPR's *Morning Edition* and *All Things Considered*. *NPR 89.1's* locally-produced *Arizona Spotlight* focuses on issues of local and regional interest, ranging from news and public affairs to the arts.

AZPM's Online and New Media division has provided support for an increase in the creation of Web-only stories, now a key feature of online and cross platform content. AZPM has strengthened its presence on social media with regular Twitter news feeds, Facebook posts, the launch of the *UA+* video hub and a YouTube channel. AZPM.org's *PlayPBS* makes many full length PBS and AZPM programs available for viewing online anytime.

AZPM's Production Services department 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 production classrooms, satellite uplinks, microwave connections, Internet streaming, and educational video channels. In Fiscal Year 2012, AZPM refreshed production technology with new HD field cameras, and an HD satellite uplink studio and control room.

ECONOMIC OUTLOOK

AZPM management believes the organization continues to be reasonably 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 media assets based at the University of Arizona. This year, management continued to implement the tactical portion of its strategic plan, which is designed to optimally position AZPM for the future, while addressing the immediate challenges to the financial health of the organization.

The current economic and political climate breeds uncertainties with regard to AZPM’s ongoing state support from the University of Arizona, which like the State of Arizona’s two other institutions of higher learning, is facing its own economic challenges, as well as federal support through the Corporation for Public Broadcasting, which provides a sizeable portion of AZPM’s annual budget through Community Service Grants for the organization’s radio and television operations.

Management is preparing to deal with current and future economic challenges by working diligently and responsibly to continue to provide high quality public media services and educational opportunities for students and the University. AZPM’s strategies include working to increase its underwriting revenue, developing its major gifts and planned giving programs, and broadening its membership base. Further, AZPM continues 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 custodians of 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, 2012 and 2011, 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, 2012 and 2011, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 6 through 12 be presented to supplement the basic financial statements, such information although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. However, we did not audit the information and express no opinion on it.

The Message from the General Manager on page 1, the Organizational Profile on page 2 and the Economic Outlook on page 3 is supplementary information presented for purposes of additional analysis. We did not audit such 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 Schedules of Operating Functional Expenses on page 31 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedules of Operating Functional Expenses are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of American. In our opinion, the information is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

CliftonLarsonAllen LLP

Tucson, Arizona
November 26, 2012

ARIZONA PUBLIC MEDIA
(A Division of the University of Arizona)
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012 and 2011

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, 2012 and 2011. Information for the year ended June 30, 2010, 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, 2012 and 2011

CONDENSED FINANCIAL STATEMENT INFORMATION

Statement of Net Assets

A summarized comparison of AZPM's assets, liabilities and net assets at June 30, 2012, 2011, and 2010, is as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Assets			
Current assets	\$ 10,173,324	\$ 9,936,620	\$ 8,854,770
Non-current assets other than capital assets	517,114	532,342	460,434
Capital assets	<u>1,857,546</u>	<u>2,145,396</u>	<u>2,619,592</u>
Total assets	<u>12,547,984</u>	<u>12,614,358</u>	<u>11,934,796</u>
Liabilities			
Current liabilities	<u>539,845</u>	<u>644,488</u>	<u>619,932</u>
Net assets			
Invested in capital assets	1,857,546	2,145,396	2,619,592
Restricted – nonexpendable	501,591	524,537	453,584
Restricted – expendable	392,410	318,914	203,385
Unrestricted	<u>9,256,592</u>	<u>8,981,023</u>	<u>8,038,303</u>
Total net assets	<u>\$ 12,008,139</u>	<u>\$ 11,969,870</u>	<u>\$ 11,314,864</u>

For the year ended June 30, 2012, total net assets increased by \$38,269, or 0.3%.

For the year ended June 30, 2011, total net assets increased by \$655,006, or 5.8%, which is mainly due to an increased cash balance as a result of an increase in overall revenue, a favorable return on investments, and an addition of a new endowment.

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, 2012 and 2011

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, 2012, 2011, and 2010, is as follows:

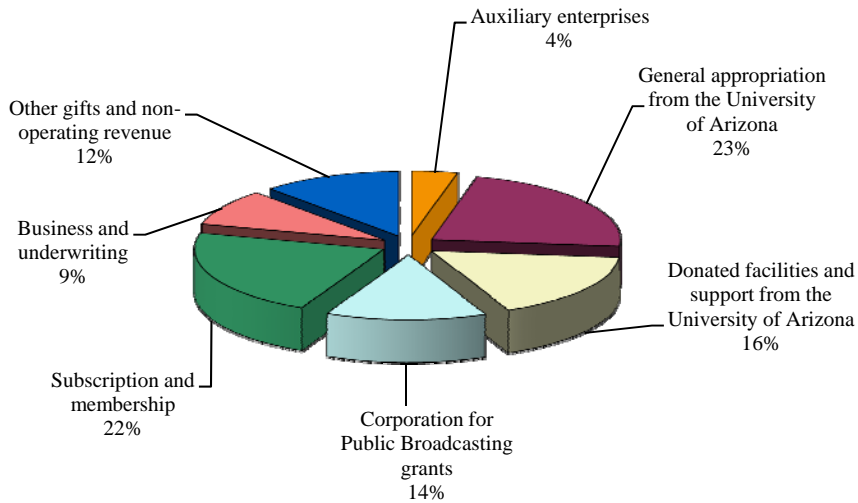
	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating revenues			
Grants and contracts	\$ 17,500	\$ -	\$ 18,500
Auxiliary enterprises	<u>406,578</u>	<u>396,537</u>	<u>454,327</u>
Total operating revenues	<u>424,078</u>	<u>396,537</u>	<u>472,827</u>
Operating expenses			
Program services:			
Programming and production	5,477,808	5,426,295	5,321,989
Broadcasting	1,729,052	1,415,352	1,432,822
Public information and promotion	583,707	428,965	585,603
Support services:			
Management and general	1,182,734	1,103,480	838,810
Fundraising and membership development	<u>1,759,660</u>	<u>1,799,672</u>	<u>1,903,176</u>
Total operating expenses	<u>10,732,961</u>	<u>10,173,764</u>	<u>10,082,400</u>
Operating loss	<u>(10,308,883)</u>	<u>(9,777,227)</u>	<u>(9,609,573)</u>
Non-operating revenues			
General appropriation from the U of A	2,409,079	2,537,368	2,445,252
Donated facilities and administrative			
Support from the U of A	1,768,707	1,675,621	1,619,487
Corporation for Public Broadcasting grants	1,452,433	1,454,897	1,403,848
Subscription and membership	2,319,945	2,478,427	2,347,162
Business and underwriting	959,513	949,566	805,048
Other gifts and non-operating revenues	<u>1,238,974</u>	<u>1,204,652</u>	<u>1,198,237</u>
Net non-operating revenues	<u>10,148,651</u>	<u>10,300,531</u>	<u>9,819,034</u>
Capital grants, gifts, and conveyances	<u>198,501</u>	<u>131,702</u>	<u>430,547</u>
Increase in net assets	38,269	655,006	640,008
Net assets – beginning of year	<u>11,969,870</u>	<u>11,314,864</u>	<u>10,674,856</u>
Net assets – end of year	<u>\$ 12,008,139</u>	<u>\$ 11,969,870</u>	<u>\$ 11,314,864</u>

ARIZONA PUBLIC MEDIA
(A Division of the University of Arizona)
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012 and 2011

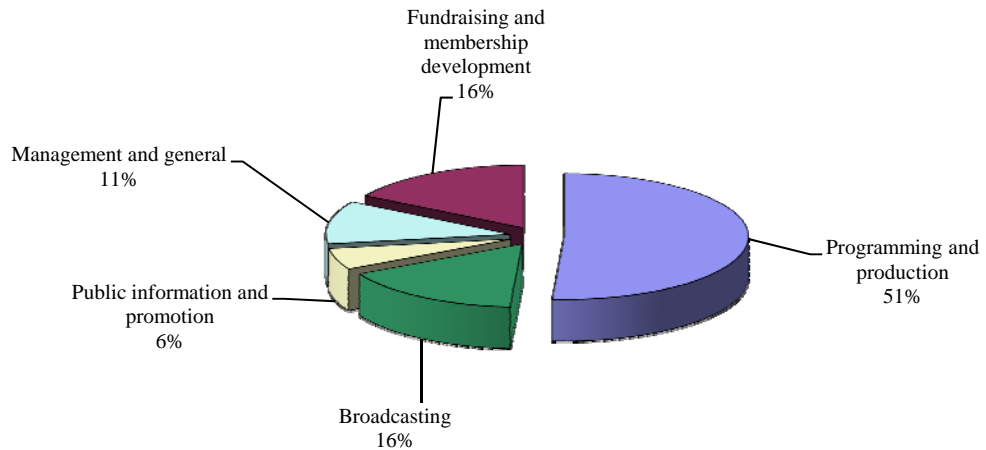
CONDENSED FINANCIAL STATEMENT INFORMATION (CONTINUED)

The following graphs illustrate the operating and non-operating revenues and expenses for the year ended June 30, 2012.

Operating and Non-operating Revenues



Operating and Non-operating Expenses

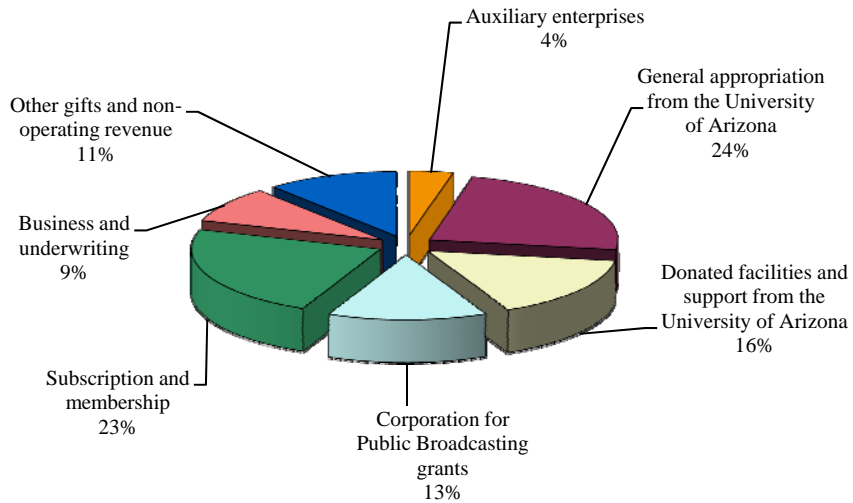


ARIZONA PUBLIC MEDIA
(A Division of the University of Arizona)
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012 and 2011

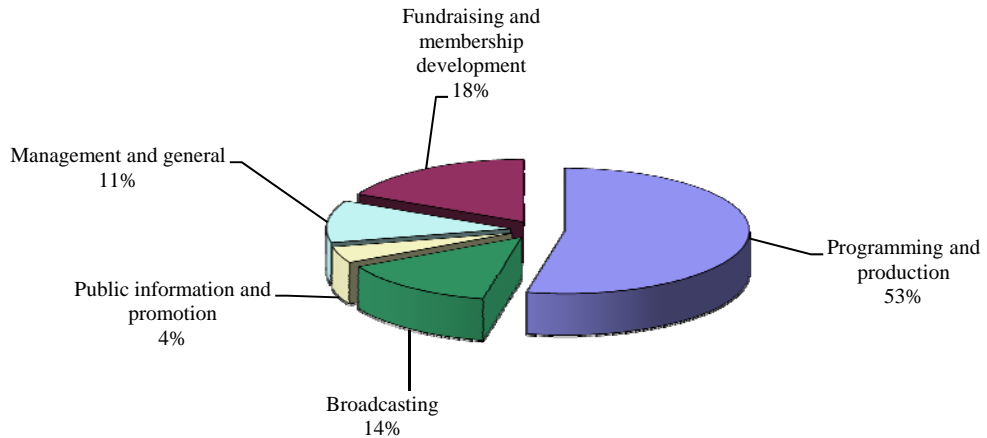
CONDENSED FINANCIAL STATEMENT INFORMATION (CONTINUED)

The following graphs illustrate the operating and non-operating revenues and expenses for the year ended June 30, 2011.

Operating and Non-operating Revenues



Operating and Non-operating Expenses



ARIZONA PUBLIC MEDIA
(A Division of the University of Arizona)
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012 and 2011

CONDENSED FINANCIAL STATEMENT INFORMATION (CONTINUED)

Operating revenues and expenses – In fiscal year 2012, AZPM's operating revenues increased by \$27,541, or 7.0%, over fiscal year 2011. This increase was mainly attributable to receiving grant funding which we did not have in fiscal year 2011 and a slight increase in outside production.

In fiscal year 2011, AZPM's operating revenues decreased by \$76,290, or 16.1%, over fiscal year 2010. This decrease was attributable to the last insurance recovery received in 2010 for the repair the to the Digital tower that suffered a lighting strike in August 2007 which was included in auxiliary enterprise revenues.

In fiscal year 2012, operating expenses increased \$559,197, or 5.5%. Program services, which consist of programming and production, broadcasting, and public information and promotion expenses, increased approximately \$519,955, or 7.2%, primarily due to an increase in our broadcasting expense which was due to tower repair and a variety of signal expansion and frequency reassignment feasibility studies. Supporting services, which consist of management and general and fundraising and membership development expenses, increased approximately \$39,242 or 1.4%.

In fiscal year 2011, operating expenses increased approximately \$91,364, or 0.9%. Program services, which consist of programming and production, broadcasting, and public information and promotion expenses, decreased approximately \$69,802, or 1.0%. Supporting services, which consist of management and general and fundraising and membership development expenses, increased approximately \$161,166 or 5.9%, primarily due to remodel of an unutilized studio into a production news room.

Non-operating revenues – In fiscal year 2012, non-operating revenue decreased approximately \$151,880, or 1.5%. The general appropriation from the University decreased approximately \$128,289, or 5.1%, primarily due to a fluctuation of salaries assigned to those funds. Donated facilities and administrative support (indirect administrative support) provided by the University increased by \$93,086, or 5.6%, which is the result of an increase in direct costs. The value is calculated using the Corporation for Public Broadcasting's (CPB) Other Sponsored Activities Method. CPB grants decreased by \$2,464, or 0.2%. Subscription and membership income decreased by \$158,482, or 6.4%, which is due to the effect of the economy on giving. Business and underwriting revenue increased \$9,947, or 1.1%. Other gifts and non-operating revenues increased by approximately \$34,322 or 2.9%.

In fiscal year 2011, non-operating revenue increased approximately \$481,497, or 4.9%. The general appropriation from the University increased approximately \$92,116, or 3.8%, primarily due to utilization of one time salary savings. Donated facilities and administrative support (indirect administrative support) provided by the University increased by \$56,134, or 3.5%, which is the result of an increase in direct costs. The value is calculated using the Corporation for Public Broadcasting's (CPB) Other Sponsored Activities Method. CPB grants increased by \$51,049, or 3.6% due to one time fiscal stabilization grants. Subscription and membership revenue increased by \$131,265, or 5.6%, which is due to successful membership campaigns. Business and underwriting revenue increased \$144,518, or 18.0%, primarily due to an increase in underwriting contracts. Other gifts and non-operating revenues increased by approximately \$6,415 or 0.5%.

ARIZONA PUBLIC MEDIA
(A Division of the University of Arizona)
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012 and 2011

CONDENSED FINANCIAL STATEMENT INFORMATION (CONTINUED)

Capital Assets and Debt Analysis

AZPM had \$1,857,546 and \$2,145,396 in capital assets, net of accumulated depreciation at June 30, 2012 and 2011, 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)
STATEMENTS OF NET ASSETS
June 30, 2012 and 2011

ASSETS	<u>2012</u>	<u>2011</u>
CURRENT ASSETS		
Cash and cash equivalents		
Held by the University of Arizona	\$ 7,819,716	\$ 7,644,464
Held by the University of Arizona Foundation	1,775,299	1,530,884
Accounts receivable, net	512,567	542,176
Government grants receivable	-	61,682
Prepaid expenses	<u>65,742</u>	<u>157,414</u>
Total current assets	<u>10,173,324</u>	<u>9,936,620</u>
NON-CURRENT ASSETS		
Endowment investments	501,591	524,537
Prepaid expenses	15,523	7,805
Capital assets, net	<u>1,857,546</u>	<u>2,145,396</u>
Total non-current assets	<u>2,374,660</u>	<u>2,677,738</u>
TOTAL ASSETS	<u>12,547,984</u>	<u>12,614,358</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	130,463	103,883
Accrued payroll and benefits	93,808	254,138
Accrued compensated absences	295,057	260,266
Deferred revenue and deposits	<u>20,517</u>	<u>26,201</u>
Total current liabilities	<u>539,845</u>	<u>644,488</u>
NET ASSETS		
Invested in capital assets	1,857,546	2,145,396
Restricted for:		
Nonexpendable - endowments	501,591	524,537
Expendable - station programs and capital projects	392,410	318,914
Unrestricted	<u>9,256,592</u>	<u>8,981,023</u>
Total net assets	<u>\$ 12,008,139</u>	<u>\$ 11,969,870</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, 2012 and 2011

	<u>2012</u>	<u>2011</u>
OPERATING REVENUE		
Grants and contracts	\$ 17,500	\$ -
Auxiliary enterprises	<u>406,578</u>	<u>396,537</u>
Total operating revenues	<u>424,078</u>	<u>396,537</u>
OPERATING EXPENSES		
Program services:		
Programming and production	5,477,808	5,426,295
Broadcasting	1,729,052	1,415,352
Public information and promotion	583,707	428,965
Supporting services:		
Management and general	1,182,734	1,103,480
Fundraising and membership development	<u>1,759,660</u>	<u>1,799,672</u>
Total operating expenses	<u>10,732,961</u>	<u>10,173,764</u>
Operating loss	<u>(10,308,883)</u>	<u>(9,777,227)</u>
NON-OPERATING REVENUE (EXPENSE)		
General appropriation from the U of A	2,409,079	2,537,368
Donated facilities and administrative support from the U of A	1,768,707	1,675,621
Corporation for Public Broadcasting grants	1,452,433	1,454,897
Subscription and membership income	2,319,945	2,478,427
Business and underwriting	959,513	949,566
Legacies and bequests	766,887	467,253
Other gifts and contributions	12,823	24,377
Investment income (loss)	(29,798)	256,829
Other non-operating revenues	489,062	464,762
Other non-operating expenses	<u>-</u>	<u>(8,569)</u>
Net non-operating revenue	<u>10,148,651</u>	<u>10,300,531</u>
Capital grants, gifts, and conveyances	<u>198,501</u>	<u>131,702</u>
INCREASE IN NET ASSETS	38,269	655,006
NET ASSETS, BEGINNING OF YEAR	<u>11,969,870</u>	<u>11,314,864</u>
NET ASSETS, END OF YEAR	<u>\$ 12,008,139</u>	<u>\$ 11,969,870</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, 2012 and 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Grants and contracts receipts	\$ 17,500	\$ -
Payments for salaries, wages and benefits	(4,891,504)	(4,605,207)
Payments to suppliers	(3,520,977)	(3,385,594)
Auxiliary enterprise receipts	<u>423,466</u>	<u>397,696</u>
Net cash used in operating activities	<u>(7,971,515)</u>	<u>(7,593,105)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
General appropriations from the U of A	2,409,079	2,537,368
Corporation for public broadcasting grants	1,452,433	1,454,897
Gifts and grants for other than capital purposes	<u>4,571,176</u>	<u>4,259,334</u>
Net cash provided by non-capital financing activities	<u>8,432,688</u>	<u>8,251,599</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Capital grants and gifts received	198,501	185,800
Purchases of capital assets	<u>(210,209)</u>	<u>(44,800)</u>
Net cash provided by (used in) capital financing activities	<u>(11,708)</u>	<u>141,000</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
(Gains) losses on quasi-endowment	(103,449)	173,513
Interest and dividends on investments	<u>73,651</u>	<u>83,316</u>
Net cash provided by investing activities	<u>(29,798)</u>	<u>256,829</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	419,667	1,056,323
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>9,175,348</u>	<u>8,119,025</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 9,595,015</u>	<u>\$ 9,175,348</u>

Continued

ARIZONA PUBLIC MEDIA
(A Division of the University of Arizona)
STATEMENTS OF CASH FLOWS (CONTINUED)
Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	\$ (10,308,883)	\$ (9,777,227)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation	534,332	510,427
Donated facilities and administrative support	1,768,707	1,675,621
Effects of changes in operating assets and liabilities:		
Accounts, grants, and bequests receivable	91,291	3,196
Prepaid expenses	83,954	(29,678)
Accounts payable	(9,693)	55,525
Accrued payroll, benefits and compensated absences	(125,539)	(31,579)
Deferred revenue and deposits	(5,684)	610
	<u> </u>	<u> </u>
Net cash used in operating activities	<u>\$ (7,971,515)</u>	<u>\$ (7,593,105)</u>
 SUPPLEMENTAL NON-CASH TRANSACTIONS		
Loss on disposal of capital assets	\$ -	\$ (8,569)
Capital asset purchase included in accounts payable	\$ 36,273	\$ -
Unrealized gain (loss) in fair value of investments:		
Quasi-endowments, included in cash and cash equivalents held by the University of Arizona	\$ (80,503)	\$ 126,474
Endowments	\$ (22,946)	\$ 47,040

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, 2012 and 2011

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, 2011, the University and AZPM implemented the provisions of GASB Statement No. 59, *Financial Instruments Omnibus*. GASB Statement No. 59 updates and improves existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools. The implementation of GASB Statement No. 59 had no effect on fiscal year 2011 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, 2012 and 2011

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 the 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.

ARIZONA PUBLIC MEDIA
(A Division of the University of Arizona)
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Endowment Investments

Endowment assets have been donated to AZPM and are permanently restricted by the donor. Endowment assets are held and invested by the Foundation, as of June 30, 2012 and 2011. With respect to AZPM, these investments represent external investment pools. As of June 30, 2012 and 2011, the external investment pool invests in a variety of asset classes, including common stocks, fixed income, foreign investments, private equity and hedge funds. As of June 30, 2012 and 2011, the weighted average maturity of investments was approximately 4 years. 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. The Foundation's Investments Committee is responsible for oversight of the Pool. For fiscal year 2012, the expendable rate was established at 4.0% of the three - year average market value ended December 31, 2010.

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 2012, 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.

ARIZONA PUBLIC MEDIA
(A Division of the University of Arizona)
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

ARIZONA PUBLIC MEDIA
(A Division of the University of Arizona)
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

NOTE 2 – DEPOSITS AND INVESTMENTS

At June 30, 2012 and 2011, the AZPM deposits totaling \$9,595,015 and \$9,175,348, respectively, were held by both the University and University of Arizona Foundation. At June 30, 2012 and 2011, AZPM's investments totaling \$501,591 (\$60,865 with the University and \$440,726 with the Foundation) and \$524,537 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 five 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, 2012 and 2011, \$1,775,299 and \$1,530,884, 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.

ARIZONA PUBLIC MEDIA
(A Division of the University of Arizona)
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

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, 2012 and 2011, \$440,726 and \$460,281, 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, 2012 and 2011

NOTE 3 – INDIVIDUAL STATION FINANCIAL INFORMATION

	<u>KUAT-TV</u>	<u>KUAT-FM</u>	<u>KUAZ</u>	<u>2012 Combined Total</u>	<u>2011 Combined Total</u>
Assets					
Current assets:					
Cash and cash equivalents					
Funds held by the U of A	\$5,226,502	\$770,290	\$1,822,924	\$7,819,716	\$ 7,644,464
Funds held by the U of A Foundation	1,239,898	243,084	292,317	1,775,299	1,530,884
Accounts receivable (net of allowances of \$76,000 in 2012 and \$83,000 in 2011)	177,697	41,251	293,619	512,567	542,176
Government grants receivable	-	-	-	-	61,682
Prepaid expenses	56,333	479	8,930	65,742	157,414
Interfund eliminations (transfers between stations)	<u>330,443</u>	<u>141,744</u>	<u>(472,187)</u>	<u>-</u>	<u>-</u>
Total current assets	<u>7,030,873</u>	<u>1,196,848</u>	<u>1,945,603</u>	<u>10,173,324</u>	<u>9,936,620</u>
Non-current assets:					
Endowment investments	31,693	234,948	234,950	501,591	524,537
Prepaid expenses	15,523	-	-	15,523	7,805
Capital assets being depreciated, net	<u>1,458,998</u>	<u>51,467</u>	<u>347,081</u>	<u>1,857,546</u>	<u>2,145,396</u>
Total non-current assets	<u>1,506,214</u>	<u>286,415</u>	<u>582,031</u>	<u>2,374,660</u>	<u>2,677,738</u>
Total assets	8,537,087	1,483,263	2,527,634	12,547,984	12,614,358
Liabilities					
Current liabilities:					
Accounts payable	71,395	24,302	34,766	130,463	103,883
Accrued payroll and benefits	67,542	9,381	16,885	93,808	254,138
Accrued compensated absences	221,781	34,019	39,257	295,057	260,266
Deferred revenue and deposits	<u>-</u>	<u>900</u>	<u>19,617</u>	<u>20,517</u>	<u>26,201</u>
Total current liabilities	360,718	68,602	110,525	539,845	644,488
Net assets					
Invested in capital assets, net of related debt and depreciation	1,458,998	51,467	347,081	1,857,546	2,145,396
Restricted for:					
Nonexpendable – endowments	31,693	234,948	234,950	501,591	524,537
Expendable					
Station programs/projects	186,567	8,332	(990)	193,909	212,914
Capital projects	198,501	-	-	198,501	106,000
Unrestricted	<u>6,300,610</u>	<u>1,119,914</u>	<u>1,836,068</u>	<u>9,256,592</u>	<u>8,981,023</u>
Total net assets	<u>\$ 8,176,369</u>	<u>\$ 1,414,661</u>	<u>\$ 2,417,109</u>	<u>\$ 12,008,139</u>	<u>\$ 11,969,870</u>

ARIZONA PUBLIC MEDIA
(A Division of the University of Arizona)
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 3 – INDIVIDUAL STATION FINANCIAL INFORMATION (CONTINUED)

	<u>KUAT-TV</u>	<u>KUAT-FM</u>	<u>KUAZ</u>	<u>2012 Combined Total</u>	<u>2011 Combined Total</u>
Operating revenues					
Grants and contracts	\$ 17,500	\$ -	\$ -	\$ 17,500	\$ -
Auxiliary enterprises	<u>378,485</u>	<u>14,046</u>	<u>14,047</u>	<u>406,578</u>	<u>396,537</u>
Total operating revenues	<u>395,985</u>	<u>14,046</u>	<u>14,047</u>	<u>424,078</u>	<u>396,537</u>
Operating expenses					
Program services:					
Programming and production	3,999,388	326,733	1,151,687	5,477,808	5,426,295
Broadcasting	1,532,549	99,417	97,086	1,729,052	1,415,352
Public information and promotion	350,013	104,303	129,391	583,707	428,965
Supporting services:					
Management and general	787,383	190,877	204,474	1,182,734	1,103,480
Fundraising and membership development	<u>828,938</u>	<u>375,147</u>	<u>555,575</u>	<u>1,759,660</u>	<u>1,799,672</u>
Total operating expenses	<u>7,498,271</u>	<u>1,096,477</u>	<u>2,138,213</u>	<u>10,732,961</u>	<u>10,173,764</u>
Operating loss	<u>(7,102,286)</u>	<u>(1,082,431)</u>	<u>(2,124,166)</u>	<u>(10,308,883)</u>	<u>(9,777,227)</u>
Non-operating revenues (expenses)					
General appropriation from U of A	1,640,294	289,024	479,761	2,409,079	2,537,368
Donated facilities and administrative support from U of A	1,214,461	189,431	364,815	1,768,707	1,675,621
Corporation for Public Broadcasting grants	1,102,321	-	350,112	1,452,433	1,454,897
Subscription and membership income	1,385,749	285,594	648,602	2,319,945	2,478,427
Business and underwriting	282,329	51,627	625,557	959,513	949,566
Legacies and bequests	566,106	134,977	65,804	766,887	467,253
Other gifts and contributions	12,823	-	-	12,823	24,377
Investment income	(15,314)	(9,153)	(5,331)	(29,798)	256,829
Other non-operating revenues	450,041	19,511	19,510	489,062	464,762
Other non-operating expenses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(8,569)</u>
Net non-operating revenues	<u>6,638,810</u>	<u>961,011</u>	<u>2,548,830</u>	<u>10,148,651</u>	<u>10,300,531</u>
Capital grants, gifts and conveyances	<u>198,501</u>	<u>-</u>	<u>-</u>	<u>198,501</u>	<u>131,702</u>
Increase (decrease) in net assets	(264,975)	(121,420)	424,664	38,269	655,006
Net assets					
Net assets, beginning of year	<u>8,441,344</u>	<u>1,536,081</u>	<u>1,992,445</u>	<u>11,969,870</u>	<u>11,314,864</u>
Net assets, end of year	<u>\$ 8,176,369</u>	<u>\$ 1,414,661</u>	<u>\$ 2,417,109</u>	<u>\$ 12,008,139</u>	<u>\$ 11,969,870</u>

ARIZONA PUBLIC MEDIA
(A Division of the University of Arizona)
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

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>2012 Total</u>	<u>2011 Total</u>
Subscription and membership, net	\$ 48,595	\$ 8,305	\$ 17,965	\$ 74,865	\$ 56,756
Underwriting and business	111,413	31,271	273,979	416,663	468,704
Auxiliary enterprises	<u>17,689</u>	<u>1,675</u>	<u>1,675</u>	<u>21,039</u>	<u>16,716</u>
	<u>\$ 177,697</u>	<u>\$ 41,251</u>	<u>\$ 293,619</u>	<u>\$ 512,567</u>	<u>\$ 542,176</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 \$2,409,079 and \$2,537,368 for operation purposes for the years ended June 30, 2012 and 2011, 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 \$1,768,707 and \$1,675,621 for the years ended June 30, 2012 and 2011, 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, 2012 and 2011

NOTE 6 – CAPITAL ASSETS

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

	Beginning Balance <u>July 1, 2011</u>	<u>Additions</u>	<u>Retirements</u>	Ending Balance <u>June 30, 2012</u>
Transmission, antenna, and tower	\$ 2,653,038	\$ 34,797	\$ -	\$ 2,687,835
Studio, equipment, FF&E	<u>5,759,378</u>	<u>211,685</u>	<u>(193,996)</u>	<u>5,777,067</u>
Total depreciable capital assets	<u>8,412,416</u>	<u>246,482</u>	<u>(193,996)</u>	<u>8,464,902</u>
Less: accumulated depreciation				
Transmission, antenna, and tower	1,515,186	163,600	-	1,678,786
Studio, equipment, FF&E	<u>4,751,834</u>	<u>370,732</u>	<u>(193,996)</u>	<u>4,928,570</u>
Total accumulated depreciation	<u>6,267,020</u>	<u>534,332</u>	<u>(193,996)</u>	<u>6,607,356</u>
Capital assets, net	<u>\$ 2,145,396</u>	<u>\$ (287,850)</u>	<u>\$ -</u>	<u>\$ 1,857,546</u>
	Beginning Balance <u>July 1, 2010</u>	<u>Additions</u>	<u>Retirements</u>	Ending Balance <u>June 30, 2011</u>
Transmission, antenna, and tower	\$ 2,936,313	\$ -	\$ (283,275)	\$ 2,653,038
Studio, equipment, FF&E	<u>5,995,599</u>	<u>44,800</u>	<u>(281,021)</u>	<u>5,759,378</u>
Total depreciable capital assets	<u>8,931,912</u>	<u>44,800</u>	<u>(564,296)</u>	<u>8,412,416</u>
Less: accumulated depreciation				
Transmission, antenna, and tower	1,627,012	162,880	(274,706)	1,515,186
Studio, equipment, FF&E	<u>4,685,308</u>	<u>347,547</u>	<u>(281,021)</u>	<u>4,751,834</u>
Total accumulated depreciation	<u>6,312,320</u>	<u>510,427</u>	<u>(555,727)</u>	<u>6,267,020</u>
Capital assets, net	<u>\$ 2,619,592</u>	<u>\$ (465,627)</u>	<u>\$ (8,569)</u>	<u>\$ 2,145,396</u>

Depreciation expense totaled \$534,332 and \$510,427 for the years ended June 30, 2012 and 2011, 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 \$610,049. 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
(A Division of the University of Arizona)
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

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, 2012, active ASRS members were required to contribute at the actuarially determined rate of 10.74 percent (10.50 percent retirement and .24 percent long-term disability) of the members' annual covered payroll. The University was required to contribute at the actuarially determined rate of 10.74 percent (9.87 percent for retirement, .63 percent for health insurance premium, and .24 percent for long-term disability) of the members' annual covered payroll. For the year ended June 30, 2011, active ASRS members were required to contribute at the actuarially determined rate of 9.85 percent (9.60 percent retirement and .25 percent long-term disability) of the members' annual covered payroll. The University was required to contribute at the actuarially determined rate of 9.85 percent (9.01 percent for retirement, .59 percent for health insurance premium, and .25 percent for long-term disability) of the members' annual covered payroll. 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.

AZPM's retirement plan expense for this plan approximated \$165,196, \$136,041, and \$133,368 for the years ended June 30, 2012, 2011, and 2010, respectively.

ARIZONA PUBLIC MEDIA
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NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 7 – RETIREMENT PLANS (CONTINUED)

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, 2012 and 2011, 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.

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, 2012, 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 7.26 percent member contribution and a 7.86 percent University contribution for the ASRS plan. The Arizona State Legislature establishes the contribution rates for active plan members and the University. For the year ended June 30, 2011, 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 a 7.84 percent University contribution for the ASRS plan. 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.

AZPM's retirement plan expense for the plan approximated \$121,614, \$127,971, and \$139,204 for the years ended June 30, 2012, 2011, and 2010, respectively.

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NOTES TO FINANCIAL STATEMENTS
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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>2012 Total</u>	<u>2011 Total</u>
Non-expendable – endowments:					
Radio Production NEA challenge	\$ -	\$ 234,952	\$ 234,952	\$ 469,904	\$ 496,338
Bashevin Endowment	6,584	-	-	6,584	6,687
Shandell Endowment	<u>25,103</u>	<u>-</u>	<u>-</u>	<u>25,103</u>	<u>21,512</u>
	<u>31,687</u>	<u>234,952</u>	<u>234,952</u>	<u>501,591</u>	<u>524,537</u>
Expendable – station programs/projects:					
Ready to Learn support	2,347	-	-	2,347	2,347
Desert Speaks support	71,723	-	-	71,723	65,592
Desert Speaks/local production support	71,046	-	-	71,046	84,476
Great Voices Radio Series support	-	9,323	-	9,323	9,323
Program acquisition/production	5,000	(991)	(990)	3,019	14,725
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	186,567	8,332	(990)	193,909	212,914
Capital project	<u>198,501</u>	<u>-</u>	<u>-</u>	<u>198,501</u>	<u>106,000</u>
Total station programs and capital projects	<u>385,068</u>	<u>8,332</u>	<u>(990)</u>	<u>392,410</u>	<u>318,914</u>
	<u>\$ 416,755</u>	<u>\$ 243,284</u>	<u>\$ 233,962</u>	<u>\$ 894,001</u>	<u>\$ 843,451</u>

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>2012 Total</u>	<u>2011 Total</u>
Interest and dividends	\$ 38,479	\$ 22,311	\$ 12,861	\$ 73,651	\$ 83,316
Net realized gain (loss) on investments	-	-	-	-	-
Net unrealized gain on investments	<u>(53,793)</u>	<u>(31,464)</u>	<u>(18,192)</u>	<u>(103,449)</u>	<u>173,513</u>
	<u>\$ (15,314)</u>	<u>\$ (9,153)</u>	<u>\$ (5,331)</u>	<u>\$ (29,798)</u>	<u>\$ 256,829</u>

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

SUPPLEMENTARY INFORMATION

ARIZONA PUBLIC MEDIA
SCHEDULES OF OPERATING FUNCTIONAL EXPENSES
Year Ended June 30, 2012

	<u>Program Services</u>				<u>Supporting Services</u>			<u>2012</u>	<u>2011</u>
	<u>Programming and Production</u>	<u>Broadcasting</u>	<u>Public Info and Promotion</u>	<u>Total Program Services</u>	<u>Management and General</u>	<u>Fundraising and Membership Development</u>	<u>Total Supporting Services</u>	<u>Combined Total Expenses</u>	<u>Combined Total Expenses</u>
KUAT - TV									
Salaries	\$ 1,906,937	\$ 626,356	\$ 157,549	\$ 2,690,842	\$ 491,306	\$ 258,434	\$ 749,740	\$ 3,440,582	\$ 3,049,928
General operations	1,043,939	580,133	147,703	1,771,775	147,339	408,657	555,996	2,327,771	2,387,020
Travel and training	9,074	2,682	698	12,454	3,116	1,679	4,795	17,249	15,193
Indirect administration support	672,313	192,295	44,063	908,671	145,622	160,168	305,790	1,214,461	1,142,451
Depreciation	367,125	131,083	-	498,208	-	-	-	498,208	476,206
Total KUAT-TV expenses	<u>3,999,388</u>	<u>1,532,549</u>	<u>350,013</u>	<u>5,881,950</u>	<u>787,383</u>	<u>828,938</u>	<u>1,616,321</u>	<u>7,498,271</u>	<u>7,070,798</u>
KUAT - FM									
Salaries	129,961	47,589	66,011	243,561	104,941	131,281	236,222	479,783	572,124
General operations	126,767	32,384	22,462	181,613	60,163	179,461	239,624	421,237	366,854
Travel and training	141	17,125	404	17,670	859	1,030	1,889	19,559	1,495
Indirect administration support	68,591	-	15,426	84,017	24,914	63,375	88,289	172,306	197,855
Depreciation	1,273	2,319	-	3,592	-	-	-	3,592	1,481
Total KUAT-FM expenses	<u>326,733</u>	<u>99,417</u>	<u>104,303</u>	<u>530,453</u>	<u>190,877</u>	<u>375,147</u>	<u>566,024</u>	<u>1,096,477</u>	<u>1,139,809</u>
KUAZ									
Salaries	430,035	36,410	67,004	533,449	108,543	238,402	346,945	880,394	913,051
General operations	525,883	10,438	43,429	579,750	63,465	213,613	277,078	856,828	679,591
Travel and training	1,111	-	514	1,625	899	1,120	2,019	3,644	2,460
Indirect administration support	192,323	20,041	18,444	230,808	31,567	102,440	134,007	364,815	335,315
Depreciation	2,335	30,197	-	32,532	-	-	-	32,532	32,740
Total KUAZ expenses	<u>1,151,687</u>	<u>97,086</u>	<u>129,391</u>	<u>1,378,164</u>	<u>204,474</u>	<u>555,575</u>	<u>760,049</u>	<u>2,138,213</u>	<u>1,963,157</u>
TOTAL EXPENSES	<u>\$ 5,477,808</u>	<u>\$ 1,729,052</u>	<u>\$ 583,707</u>	<u>\$ 7,790,567</u>	<u>\$ 1,182,734</u>	<u>\$ 1,759,660</u>	<u>\$ 2,942,394</u>	<u>\$ 10,732,961</u>	<u>\$ 10,173,764</u>

See independent auditor's report on supplementary information.