

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

YEARS ENDED JUNE 30, 2015 AND 2014

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

YEARS ENDED JUNE 30, 2015 AND 2014

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FY'15
Audit Letter

Fiscal Year 2015 (FY'15) was a banner year for Arizona Public Media (AZPM). The public came forward and showed its ongoing support of AZPM and its mission as a public broadcaster, helping the organization to meet its very ambitious fundraising goals. I am especially happy to report that the number of contributors grew by 9.6 percent, a figure that includes more than 4,000 first-time contributors.

AZPM performed exceptionally well in other areas, too. *PBS 6* consistently ranked among the Top 5 PBS stations nationwide for primetime viewership, and *NPR 89.1* remains the #1 news/talk radio station in Tucson. More people than ever before are connecting with AZPM via online and social media platforms. In FY'15, AZPM's news site, *news.azpm.org*, had more than 4.5 million page views, an increase of 125 percent over FY'14. AZPM's Facebook, Twitter and YouTube channels also experienced significant increases in followers and viewership.

I'm very proud to announce that AZPM staff again topped the region in Rocky Mountain Emmy® awards, receiving 14 awards in 10 categories, including the top award for overall station excellence. This is more than any other broadcaster in Tucson and more than any other public media organization in the region, which includes Arizona, New Mexico, Utah, Wyoming and El Centro, CA. These awards speak to the exceptional quality of work that our staff produces on a daily basis for your benefit.

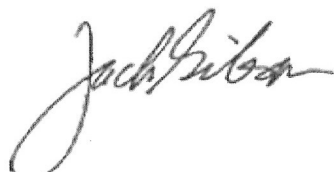
AZPM has a distinguished history of providing the very best in entertainment, science and nature, children's, and news and public affairs programming, from award-winning PBS programs like the *PBS NewsHour*, *NOVA* and *Frontline*, to respected NPR programming such as *Morning Edition* and *All Things Considered*. AZPM's dedicated news staff also provides critical, in-depth state and local reporting with 24 radio newscasts each weekday.

As a member of the University of Arizona family, AZPM strongly supports the 100% Student Engagement strategic objective. AZPM's studios, edit suites and newsroom are also extended classrooms, providing real-world, on-the-job training to some 25 UA students each semester. The broadcast journalism and production training these students receive is invaluable and solidly prepares them for high-caliber professional careers after graduation, as evidenced by a number of recent graduates who landed impressive positions right out of school.

Public broadcasting regularly tops the list of the most trusted institutions in the United States. For this reason, Southern Arizonans rely on AZPM's six television channels — *PBS 6*, *PBS Kids*, *WORLD*, *ReadyTV*, *Vme* and *The UA Channel* — as well as our two radio services — *NPR 89.1* and *Classical 90.5* — to be informed, inspired and connected.

Over the next year, AZPM will continue to leverage its existing resources as efficiently and cost-effectively as possible. We also continue to expand our member, donor and underwriting bases, putting the organization on solid financial footing. Most importantly, AZPM will remain committed to public broadcasting excellence. Thank you for your continued support.

Sincerely,



Jack Gibson
Director and General Manager

Independent Auditors' Report

Board of Directors and Management
Arizona Public Media
Tucson, Arizona

We have audited the accompanying financial statements of Arizona Public Media, a division of The University of Arizona, as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with U.S. generally accepted auditing standards established by the AICPA Auditing Standards Board. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2015 and 2014, and the changes in financial position and cash flows thereof for the years then ended in accordance with U.S. generally accepted accounting principles.

Change in Accounting Principle

As discussed in Note 1, in 2015 Arizona Public Media adopted new accounting guidance, GASB Statement No. 68, Accounting and Financial Reporting for Pensions, as amended by GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to Measurement Date (Statements). Our opinion is not modified with respect to this matter.

Restatement of the comparative financial data for the prior period presented is not practical due to the unavailability of information from the pension plan, therefore, the provisions of GASB Statements No. 68 and 71 were not applied to the prior period. The cumulative effects of applying the provisions of GASB Statements No. 68 and 71 have been reported as a restatement of beginning net position for the year ended June 30, 2015 in accordance with the Statements.

Other Matters

Required Supplementary Information

U.S. generally accepted auditing standards require that the management's discussion and analysis and schedule of AZPM's proportionate share of the net pension liability - cost sharing plan (ASRS) and schedule of pension contributions, as listed in the table of contents, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, 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 financial statements and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The message from the General Manager and statements of functional expenses by station are presented for purposes of additional analysis and are not a required part of the financial statements.

The statements of functional expenses by station are the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 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 U.S. generally accepted auditing standards. In our opinion, the statements of functional expenses by station are fairly stated, in all material respects, in relation to the financial statements as a whole.

The message from the General Manager has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Beach Fleischman PC

Tucson, Arizona
December 18, 2015

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEARS ENDED JUNE 30, 2015 AND 2014

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, 2015 and 2014.

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 Position; the Statement of Revenues, Expenses and Changes in Net Position; and the Statement of Cash Flows.

The Statement of Net Position presents the financial position of AZPM at the end of the fiscal year and includes all assets, deferred outflows of resources, liabilities and deferred inflows of resources of AZPM. Assets and liabilities are classified as either current or noncurrent. 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. Deferred outflows/inflows of resources are resources that will be consumed or acquired in a future reporting period. The difference between total assets and deferred outflows of resources and total liabilities and deferred inflows of resources, referred to as net position, 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 Position provides information about AZPM's financial activities during the year. Revenues and expenses are classified as either operating or nonoperating, 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 nonoperating revenues. Therefore, as a result of these standards, AZPM will typically appear to operate at a loss. By comparison, the total change in net position 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 Position. In addition, this statement reconciles cash flows from operating activities to operating income (loss) on the Statement of Revenues, Expenses and Changes in Net Position.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEARS ENDED JUNE 30, 2015 AND 2014

CONDENSED FINANCIAL STATEMENT INFORMATION

Statement of Net Position

A summarized comparison of AZPM's assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position at June 30, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Assets		
Current assets	\$ 14,728,427	\$ 12,883,119
Noncurrent assets other than capital assets	1,524,502	725,048
Capital assets	1,584,917	1,886,157
Deferred outflows of resources	<u>635,792</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>18,473,638</u>	<u>15,494,324</u>
Liabilities		
Current liabilities	672,211	680,201
Noncurrent liabilities	4,800,058	-
Deferred inflows of resources	<u>837,503</u>	<u>-</u>
Total liabilities and deferred inflows of resources	<u>6,309,772</u>	<u>680,201</u>
Net position		
Investment in capital assets	1,584,917	1,886,157
Restricted - nonexpendable	1,470,336	660,786
Restricted - expendable	301,742	146,075
Unrestricted	<u>8,806,871</u>	<u>12,121,105</u>
Total net position	<u>\$ 12,163,866</u>	<u>\$ 14,814,123</u>

For the year ended June 30, 2015, total net position was restated by \$4,932,432 and experienced an increase in net position of \$2,282,175. The restatement of net position was mainly due to the implementation of GASB Statement No. 68, Accounting and Financial Reporting for Pensions, which establishes standards for measuring and recognizing net pension liabilities, deferred outflows of resources, deferred inflows of resources, and expenses related to pension benefits provided through defined benefit and defined contribution pension plans.

For the year ended June 30, 2014, total net position increased by \$1,769,657, or 13.6%, mainly due to an increase in capital assets. An emergency generator was installed to ensure compliance with the Warning, Alert and Response Network Act of 2006. The scope of the project entailed a major electrical infrastructure upgrade of approximately \$417,000 to the building in which the station resides. Title to the building remains with the University of Arizona. In addition, there was an increase in overall revenue, while expense remained fairly flat.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEARS ENDED JUNE 30, 2015 AND 2014

CONDENSED FINANCIAL STATEMENT INFORMATION (CONTINUED)

Statement of Net Position (Continued)

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 unearned revenue. Current assets are sufficient to meet current obligations.

Statement of Revenues, Expenses and Changes in Net Position

A summarized comparison of AZPM's operations for the years ended June 30, 2015 and 2014 is as follows:

	2015	2014
Operating revenues:		
Grants and contracts	\$ 20,000	\$ 21,433
Auxiliary enterprises	353,975	398,466
Total operating revenues	373,975	419,899
Operating expenses:		
Program services:		
Programming and production	5,943,499	5,845,531
Broadcasting	1,338,111	1,286,704
Public information and promotion	516,751	440,344
Support services:		
Management and general	977,732	1,151,218
Fundraising and membership development	2,202,791	2,106,134
Total operating expenses	10,978,884	10,829,931
Operating loss	(10,604,909)	(10,410,032)
Nonoperating revenues:		
General appropriation from U of A	2,497,686	2,621,447
Donated facilities and administrative support from U of A	1,765,809	1,814,465
Corporation for Public Broadcasting grants	1,537,741	1,403,122
Subscription and membership income	3,002,550	2,494,023
Business and underwriting	1,242,586	1,138,671
Other gifts and nonoperating revenues	2,807,922	2,099,936
	12,854,294	11,571,664
Increase in net position before capital items	2,249,385	1,161,632
Capital grants, gifts and conveyances	32,790	608,025
Increase in net position	2,282,175	1,769,657
Net position, beginning of year, as restated	9,881,691	13,044,466
Net position, ending of year	\$ 12,163,866	\$ 14,814,123

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MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEARS ENDED JUNE 30, 2015 AND 2014

CONDENSED FINANCIAL STATEMENT INFORMATION (CONTINUED)

Operating revenues and expenses - In fiscal year 2015, AZPM's operating revenues decreased by \$45,924, or 10.9%, over fiscal year 2014. This was attributable to a decrease in outside production revenue.

In fiscal year 2014, AZPM's operating revenues increased by \$2,975, or 0.7% over fiscal year 2013. This increase was attributable to the variance in grant revenues.

In fiscal year 2015, operating expenses had an increase of \$148,953, or 1.4%. Program services, which consist of programming and production, broadcasting, and public information and promotion expenses, increased \$225,782, or 3.0% primarily due to increased program acquisition costs. Supporting services, which consist of management and general and fundraising and membership development expenses, decreased \$76,829 or 2.4% primarily due to the change in accrued compensated absences.

In fiscal year 2014, operating expenses remained flat with a slight decrease of \$42,885, or 0.4%. Program services, which consist of programming and production, broadcasting, and public information and promotion expenses, decreased \$280,419, or 3.6% primarily due to negotiation of discounts with several television providers and altered the television schedules so as to reduce program acquisition costs. Supporting services, which consist of management and general and fundraising and membership development expenses, increased \$237,534 or 7.9% primarily due to an increase in direct mail and fund raising costs.

Nonoperating revenues – In fiscal year 2015, nonoperating revenue increased \$1,282,630, or 11.1%. The general appropriation from the University decreased \$123,761, or 4.7%, primarily due to the second year of five of the University reductions. Donated facilities and administrative support (indirect administrative support) provided by the University decreased by \$48,656, or 2.7%, 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 \$134,619, or 9.6%. Subscription and membership revenue increased by \$508,527, or 20.4%, which is primarily due to continued growth of the sustainer giving campaign and successful pledge drives. Business and underwriting revenue increased \$103,915, or 9.1%, primarily due to an increase in underwriting contracts. Other gifts and nonoperating revenues increased by \$707,986 or 33.7%, which is mainly due to an increase in endowments and major giving.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEARS ENDED JUNE 30, 2015 AND 2014

CONDENSED FINANCIAL STATEMENT INFORMATION (CONTINUED)

In fiscal year 2014, nonoperating revenue increased \$225,445, or 2.0%. The general appropriation from the University decreased approximately \$231,641, or 8.1%, primarily due to one-time salary savings realized in fiscal year 2013. Donated facilities and administrative support (indirect administrative support) provided by the University increased by \$19,904, or 1.1%, 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 \$6,527, or 0.5%. Subscription and membership revenue increased by \$126,351, or 5.3%, which is primarily due to a new sustainer giving campaign. Business and underwriting revenue increased \$53,427, or 4.9%, primarily due to an increase in radio marketing nationwide. Other gifts and nonoperating revenues increased by \$263,931 or 14.4%, which is mainly due to an increase in investment revenue, increases to existing endowments and major giving.

Capital Assets and Debt Analysis

AZPM had \$1,584,917 and \$1,886,157 in capital assets, net of accumulated depreciation at June 30, 2015 and 2014. 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.

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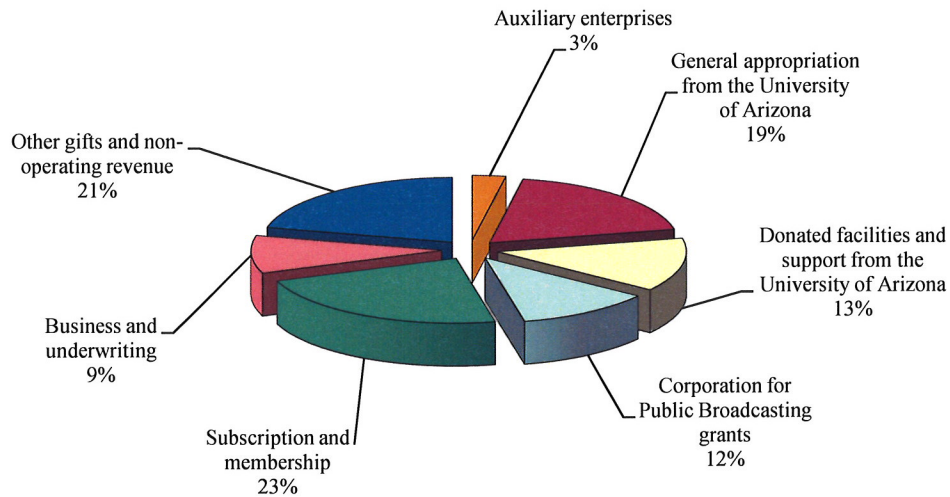
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEARS ENDED JUNE 30, 2015 AND 2014

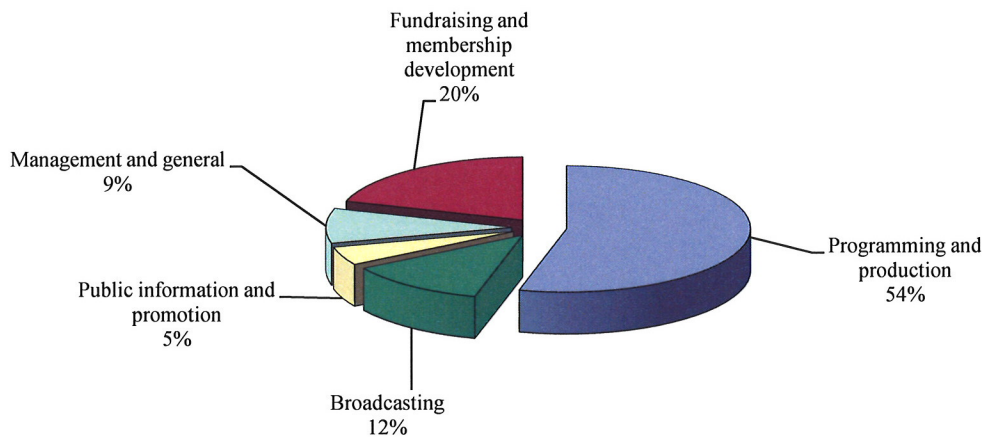
CONDENSED FINANCIAL STATEMENT INFORMATION (CONTINUED)

The following graphs illustrate the operating and nonoperating revenues and expenses for the year ended June 30, 2015.

Operating and Non-operating Revenues



Operating and Non-operating Expenses



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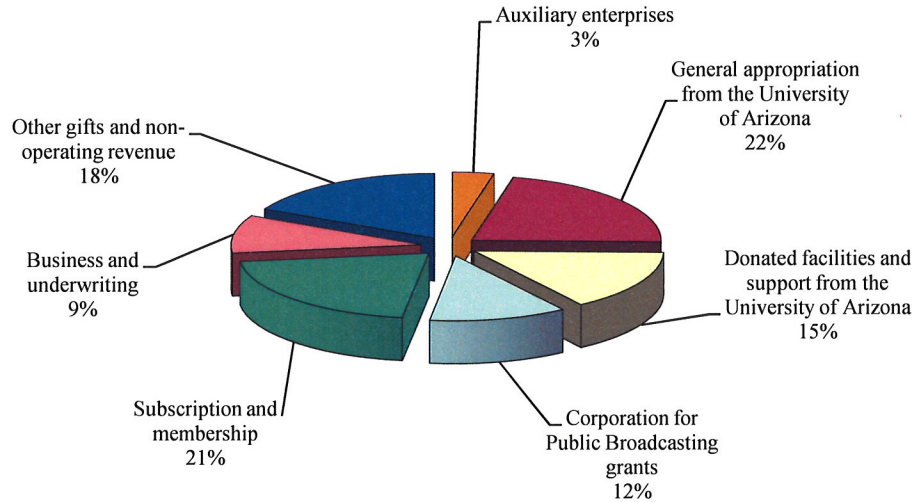
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEARS ENDED JUNE 30, 2015 AND 2014

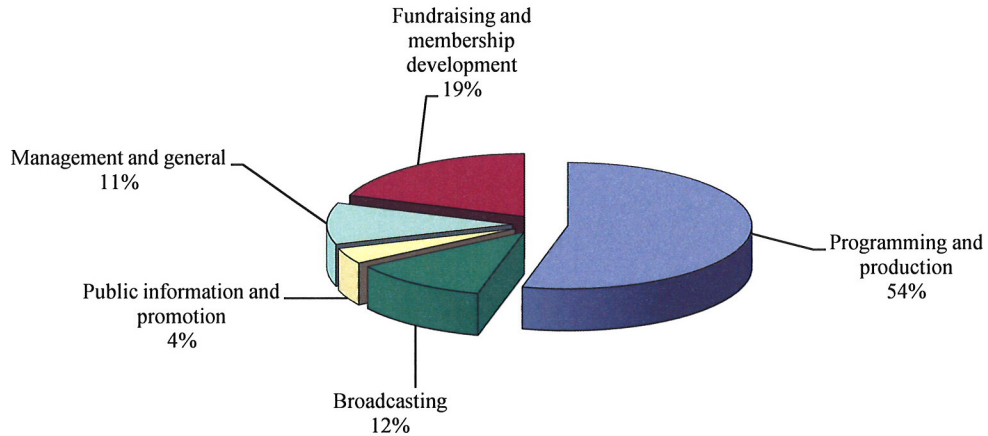
CONDENSED FINANCIAL STATEMENT INFORMATION (CONTINUED)

The following graphs illustrate the operating and nonoperating revenues and expenses for the year ended June 30, 2014.

Operating and Nonoperating Revenues



Operating and Nonoperating Expenses



ARIZONA PUBLIC MEDIA
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STATEMENTS OF NET POSITION

JUNE 30, 2015 AND 2014

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	2015	2014
Current assets:		
Cash and cash equivalents	\$ 13,608,088	\$ 11,950,089
Accounts receivable, net	980,796	779,778
Prepaid expenses	139,543	153,252
Total current assets	14,728,427	12,883,119
Capital assets, net	1,584,917	1,886,157
Endowment investments	1,470,336	660,786
Other assets	54,166	64,262
Total assets	17,837,846	15,494,324
Deferred outflows of resources:		
Deferred outflows related to pensions	635,792	-
Total assets and deferred outflows of resources	18,473,638	15,494,324

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

Current liabilities:		
Accounts payable	143,586	161,930
Accrued expenses and other liabilities	512,154	492,041
Unearned revenue	6,498	26,230
Current portion of defined contribution plans liability	9,973	-
Total current liabilities	672,211	680,201
Defined contribution plans liability, net of current portion	10,759	-
Net pension liability	4,789,299	-
Total liabilities	5,472,269	680,201
Deferred inflows of resources:		
Deferred inflows related to pensions	837,503	-
Total liabilities and deferred inflows of resources	6,309,772	680,201
Commitments and contingencies		
Net position:		
Investment in capital assets	1,584,917	1,886,157
Restricted:		
Nonexpendable - endowments	1,470,336	660,786
Expendable - station programs/projects	277,939	146,075
Expendable - capital projects	23,803	-
Unrestricted	8,806,871	12,121,105
Total net position	\$ 12,163,866	\$ 14,814,123

See notes to financial statements.

ARIZONA PUBLIC MEDIA
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STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
Operating revenues:		
Grants and contracts	\$ 20,000	\$ 21,433
Auxiliary enterprises	353,975	398,466
Total operating revenues	373,975	419,899
Operating expenses:		
Program services:		
Programming and production	5,943,499	5,845,531
Broadcasting	1,338,111	1,286,704
Public information and promotion	516,751	440,344
Support services:		
Management and general	977,732	1,151,218
Fundraising and membership development	2,202,791	2,106,134
Total operating expenses	10,978,884	10,829,931
Operating loss	(10,604,909)	(10,410,032)
Nonoperating revenues:		
General appropriation from U of A	2,497,686	2,621,447
Donated facilities and administrative support from U of A Corporation for Public Broadcasting grants	1,765,809	1,814,465
Subscription and membership income	1,537,741	1,403,122
Business and underwriting	3,002,550	2,494,023
Legacies and bequests	1,242,586	1,138,671
Other gifts and contributions	1,230,700	1,101,367
Investment income, net	895,946	86,095
Other nonoperating revenues	10,855	271,473
Total nonoperating revenues	670,421	641,001
Nonoperating revenue	12,854,294	11,571,664
Increase in net position before capital additions	2,249,385	1,161,632
Capital grants, gifts and conveyances	32,790	608,025
Increase in net position	2,282,175	1,769,657
Net position, beginning of year, as restated	9,881,691	13,044,466
Net position, end of year	\$ 12,163,866	\$ 14,814,123

See notes to financial statements.

ARIZONA PUBLIC MEDIA
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STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Grants and contracts receipts	\$ 20,000	\$ 10,000
Auxiliary enterprise receipts	366,120	402,031
Payments for salaries, wages and benefits	(5,104,038)	(5,113,178)
Payments to suppliers	<u>(3,620,119)</u>	<u>(3,563,200)</u>
Net cash used in operating activities	<u>(8,338,037)</u>	<u>(8,264,347)</u>
Cash flows from noncapital financing activities:		
General appropriations from the U of A	2,497,686	2,621,447
Corporation for Public Broadcasting grants	1,537,741	1,403,122
Gifts and grants for other than capital purposes	<u>5,969,654</u>	<u>5,169,134</u>
Net cash provided by noncapital financing activities	<u>10,005,081</u>	<u>9,193,703</u>
Cash flows from capital financing activities:		
Capital grants and gifts received	32,790	608,025
Purchases of capital assets	<u>(82,794)</u>	<u>(791,493)</u>
Net cash used in capital financing activities	<u>(50,004)</u>	<u>(183,468)</u>
Cash flows from investing activities:		
Increase in fair value of cash equivalents	\$ (56,368)	\$ 141,486
Interest and dividends on investments	<u>97,327</u>	<u>76,529</u>
Net cash provided by investing activities	<u>40,959</u>	<u>218,015</u>
Net increase in cash and cash equivalents	1,657,999	963,903
Cash and cash equivalents, beginning	<u>11,950,089</u>	<u>10,986,186</u>
Cash and cash equivalents, ending	<u>\$ 13,608,088</u>	<u>\$ 11,950,089</u>

See notes to financial statements.

ARIZONA PUBLIC MEDIA
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STATEMENTS OF CASH FLOWS (CONTINUED)

YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	<u>\$ (10,604,909)</u>	<u>\$ (10,410,032)</u>
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	384,034	375,154
Pension expense	377,047	-
Employer pension contributions	(297,737)	-
Donated facilities and administrative support	1,765,809	1,814,465
Investment fees	-	4,677
Changes in operating assets and liabilities:		
Accounts receivable	12,474	3,565
Prepaid expenses	23,805	(122,711)
Accounts payable	(18,344)	(37,107)
Accrued expenses and other liabilities	20,113	119,075
Unearned revenue	<u>(329)</u>	<u>(11,433)</u>
Net cash used in operating activities	<u>\$ (8,338,037)</u>	<u>\$ (8,264,347)</u>
Supplemental noncash transactions:		
Unrealized gain in fair value of investments:		
Quasi-endowments, included in cash and cash equivalents held by the University of Arizona	(56,368)	141,486
Endowments	(30,407)	53,460

See notes to financial statements.

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

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2015 AND 2014

1. Description of organization and summary of significant accounting policies:

Description of business:

The accounting policies of Arizona Public Media (AZPM or the Organization) conform to U.S. generally accepted accounting principles (GAAP) applicable to governmental colleges and universities engaged in business-type activities as promulgated by the Governmental Accounting Standards Board (GASB) and the Financial Reporting Guidelines published by the Corporation for Public Broadcasting (CPB), unless those pronouncements conflict with GASB pronouncements.

During the year ended June 30, 2015, AZPM implemented GASB Statement No. 68, Accounting and Financial Reporting for Pensions, as amended by GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date. GASB 68 and 71 establish standards for measuring and recognizing net pension assets and liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures related to pension benefits provided through defined benefit pension plans. In addition, Statement No. 68 requires disclosure of information related to pension benefits.

Reporting entity:

Arizona Public Media is a division of the University of Arizona (the University or U of A), 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 noncommercial, 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.

The financial statements include all funds directly controlled by Arizona Public Media. Fiscal responsibility remains with the University of Arizona.

Basis of accounting:

The basis of accounting relates to the timing of the measurements made and determines when revenues and expenses are recognized in the accounts and reported in the financial statements. The financial statements of AZPM are reported using the economic resources measurement focus and are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of the related cash flows. All interdepartmental activity is eliminated.

Financial statement presentation:

The financial statements include Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position and Statements of Cash Flows.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2015 AND 2014

1. Description of organization and summary of significant accounting policies (continued):

Financial statement presentation (continued):

The Statements of Net Position provide information about the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position at the end of the year. Assets and liabilities are classified as either current or noncurrent. Deferred outflows/inflows of resources are resources that will be consumed or acquired in a future reporting period. Net position is classified according to external restrictions or availability of assets to satisfy obligations. Investment in capital assets represents the cost of capital assets, net of accumulated depreciation. Nonexpendable restricted net position represents gifts received for endowment purposes, the corpus of which may not be expended. Expendable restricted net position represent grants, contracts, gifts and other resources that have been externally restricted for specific purposes. Unrestricted net position includes the remaining amounts of net position, including those that have been designated by management to be used for other than general operating purposes.

The Statements of Revenues, Expenses and Changes in Net Position provide information about AZPM's financial activities during the year. Revenues and expenses are classified as either operating or nonoperating and all changes in net position 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 nonoperating revenues. Operating expenses include the gain (loss) on disposal of capital assets.

The Statements of Cash Flows provide 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, noncapital financing, capital financing or investing activities.

Estimates:

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

Cash and cash equivalents:

The Organization's cash and cash equivalents are held by the University and by the University of Arizona Foundation (Foundation).

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2015 AND 2014

1. Description of organization and summary of significant accounting policies (continued):

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.

Accounts receivable:

Accounts receivable consist primarily of pledge receivables and are recognized as revenues in the period the promise is received. Conditional promises to give are recognized when the conditions on which they depend on are substantially met. Unconditional promises to give are recorded at net realizable value.

The carrying amount of accounts receivable is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected. The allowance for doubtful accounts is based on management's assessment of the collectibility of specific doubtful accounts and the aging of accounts receivable. Receivables are written off when deemed uncollectible. The Organization has recorded allowances for doubtful accounts of \$98,000 and \$74,000 at June 30, 2015 and 2014.

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 in an external investment pool at June 30, 2015 and 2014. At June 30, 2015 and 2014, the external investment pool invests in a variety of asset classes, including common stocks, fixed income, foreign investments, private equity and hedge funds. At June 30, 2015 and 2014, the weighted average maturity of investments was approximately four years. The investment pools are not rated.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2015 AND 2014

1. Description of organization and summary of significant accounting policies (continued):

Endowment investments (continued):

Investments are carried at fair value and realized and unrealized gains and losses are reflected as nonoperating revenues and expenses in the Statements of Revenues, Expenses and Changes in Net Position.

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 2015, the expendable rate was established at 4% of the three-year average market value ended December 31, 2013.

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 payout 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 2015, the payout rate was established at 4%.

Capital assets:

Capital assets, which include transmission, antenna, tower, studio, equipment and furniture, fixtures and equipment are reported in the financial statements. Capital assets are defined as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if actual cost is not available. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

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.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2015 AND 2014

1. Description of organization and summary of significant accounting policies (continued):

Compensated absences:

Compensated absences and compensatory time is earned at rates dependent on the length of employment and can be accumulated to a specified maximum number of days. Accordingly, these benefits are accrued as a liability in the financial statements for the maximum number of days. Upon termination or retirement, a set number of accrued vacation and compensatory hours will be paid to employees.

Deferred outflows and inflows of resources:

The Statements of Net Position includes separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to future periods that will be recognized as an expense in future periods. Deferred inflows of resources represent an acquisition of net position that applies to future periods and will be recognized as a revenue in future periods.

Pensions:

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the pension plan's fiduciary net position and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The plan's investments are reported at fair value.

Revenues and support recognition:

Federal grants, contracts and appropriations and nongovernmental 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 nonoperating revenue in the year appropriated.

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

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

**ARIZONA PUBLIC MEDIA
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2015 AND 2014

1. Description of organization and summary of significant accounting policies (continued):

Revenues and support (continued):

Other gifts received for the purpose of supporting programming costs are recognized as nonoperating revenue in the period the promise to give is made. CPB funding is contingent on certain performance factors and, as a result, is recognized as unrestricted nonoperating revenue in the year received. 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 position.

Indirect administrative support from the University consists of allocated institutional support incurred by various other divisions of the University for which AZPM receives benefits. The fair value of this support is recognized in the Statements of Revenues, Expenses and Changes in Net Position as donated facilities and administrative support from the U of A and also as an expense. For the year ended June 30, 2015 and 2014, indirect support was calculated using the University's indirect rate modified to exclude certain cost components that do not benefit AZPM.

Functional allocation of expenses:

Expenses that can be identified with a specific program of supporting service are charged directly to the program according to their natural expense classification. Costs incurred that share a common purpose are allocated based on total personnel costs or other systematic bases.

Income taxes:

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.

Subsequent events:

The Organization's management has evaluated the events that have occurred subsequent to June 30, 2015 through December 18, 2015, the date that the financial statements were available to be issued. Management has no responsibility to update these financial statements for events and circumstances occurring after this date.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2015 AND 2014

2. Change in accounting principle:

AZPM's net position as of July 1, 2014 has been restated as follows for the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

Due to AZPM electing to use a measurement date as of June 30, 2014 for its net pension liability, no accounting valuation report was prepared for the measurement date of June 30, 2013. Therefore, all of the information needed to restate the prior year data is not readily available and the 2014 has not been restated.

Net position, as previously reported, June 30, 2014	\$14,814,123
Adjustments - implementation of GASB 68 and 71	
Net pension liability	(5,244,627)
Deferred outflows - District contributions made during fiscal year 2014	<u>312,195</u>
	<u>(4,932,432)</u>
Net position, as restated, June 30, 2014	<u>\$ 9,881,691</u>

3. Cash and cash equivalents and endowment investments:

The Organization's cash and cash equivalents and investments consist of the following at June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Cash and cash equivalents		
Held by the University of Arizona	\$10,589,345	\$ 9,297,936
Held by the University of Arizona Foundation	<u>3,018,743</u>	<u>2,652,153</u>
	<u>\$13,608,088</u>	<u>\$11,950,089</u>
Endowment investments:		
Endowment held by the University of Arizona	\$ 90,807	\$ 93,891
Endowment held by the University of Arizona Foundation	<u>1,379,529</u>	<u>566,895</u>
	<u>\$ 1,470,336</u>	<u>\$ 660,786</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2015 AND 2014

3. Cash and cash equivalents and endowment investments (continued):

AZPM's cash and investments held with the Foundation represent a portion of the Foundation's investment pool portfolio; however, AZPM's portion is not identified with specific investments. The University of Arizona Foundation's pool 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 does not have a formal policy for interest rate risk.

Credit risk:

With regard to credit risk, University policy restricts investment of the operating funds to certificates of deposit and collateralized repurchase agreements, United States Treasury securities, federal agency securities, investment grade corporate bonds or the government investment pool administered by the State Treasurer's Office. When investing operating funds, University policy requires corporate bonds and notes to be of investment grade quality, rated Baa or higher by Moody's Investors 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. University policy for its operating funds requires all repurchase agreements to be collateralized with government debt securities or cash balances held in the comptroller's demand account. Beyond this requirement and those established by Statue or the Board, the University does not have a policy that specifically addresses custodial risk.

4. Accounts receivable, net:

	<u>KUAT-TV</u>	<u>KUAT-FM</u>	<u>KUAZ</u>	<u>June 30, 2015 Total</u>	<u>June 30, 2014 Total</u>
Subscription and membership	\$ 376,342	\$ 64,652	\$ 146,923	\$ 587,917	\$ 391,883
Underwriting and business	116,386	24,080	344,063	484,529	443,071
Auxiliary enterprises	<u>4,975</u>	<u>688</u>	<u>687</u>	<u>6,350</u>	<u>18,824</u>
	497,703	89,420	491,673	1,078,796	853,778
Less allowance for doubtful accounts	<u>63,440</u>	<u>10,560</u>	<u>24,000</u>	<u>98,000</u>	<u>74,000</u>
	<u>\$ 434,263</u>	<u>\$ 78,860</u>	<u>\$ 467,673</u>	<u>\$ 980,796</u>	<u>\$ 779,778</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2015 AND 2014

5. Capital assets:

	<u>June 30, 2014</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2015</u>
Transmission, antenna and tower	\$ 2,709,159	\$ -	\$ -	\$ 2,709,159
Studio, equipment, FF&E	<u>6,654,186</u>	<u>82,794</u>	<u>(428,609)</u>	<u>6,308,371</u>
Total depreciable capital assets	<u>9,363,345</u>	<u>82,794</u>	<u>(428,609)</u>	<u>9,017,530</u>
Less accumulated depreciation:				
Transmission, antenna and tower	2,005,684	164,010	-	2,169,694
Studio, equipment, FF&E	<u>5,471,504</u>	<u>220,024</u>	<u>(428,609)</u>	<u>5,262,919</u>
Total accumulated depreciation	<u>7,477,188</u>	<u>384,034</u>	<u>(428,609)</u>	<u>7,432,613</u>
Capital assets, net	<u>\$ 1,886,157</u>	<u>\$ (301,240)</u>	<u>\$ -</u>	<u>\$ 1,584,917</u>

	<u>June 30, 2013</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2014</u>
Transmission, antenna and tower	\$ 2,687,835	\$ 21,324	\$ -	\$ 2,709,159
Studio, equipment, FF&E	<u>5,903,975</u>	<u>756,030</u>	<u>(5,819)</u>	<u>6,654,186</u>
Total depreciable capital assets	<u>8,591,810</u>	<u>777,354</u>	<u>(5,819)</u>	<u>9,363,345</u>
Less accumulated depreciation				
Transmission, antenna and tower	1,842,386	163,298	-	2,005,684
Studio, equipment, FF&E	<u>5,265,467</u>	<u>211,856</u>	<u>(5,819)</u>	<u>5,471,504</u>
Total accumulated depreciation	<u>7,107,853</u>	<u>375,154</u>	<u>(5,819)</u>	<u>7,477,188</u>
Capital assets, net	<u>\$ 1,483,957</u>	<u>\$ 402,200</u>	<u>\$ -</u>	<u>\$ 1,886,157</u>

Depreciation expense totaled \$384,034 and \$375,154 for the years ended June 30, 2015 and 2014. 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 \$173,012 and \$259,519 at June 30, 2015 and 2014. 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 (CONTINUED)

YEARS ENDED JUNE 30, 2015 AND 2014

6. Restrictions on net position:

AZPM receives grants and funding from various sources to be used for operations, production and promotion of certain activities. A summary of the nonexpendable and expendable restricted net position as of June 30, 2015 and 2014 is as follows:

	<u>KUAT-TV</u>	<u>KUAT-FM</u>	<u>KUAZ</u>	<u>June 30, 2015 Total</u>	<u>June 30, 2014 Total</u>
Nonexpendable endowments:					
Radio Production - NEA Challenge	\$ -	\$ 261,954	\$ 261,954	\$ 523,908	\$ 543,448
Bashevdir Endowment	8,218	-	-	8,218	8,213
Gordon Endowment	22,947	-	-	22,947	23,500
Shandell Endowment	850,784	-	-	850,784	85,625
Raney Endowment	13,409	6,704	6,705	26,818	-
Hildebrand Endowment	-	37,661	-	37,661	-
	<u>895,358</u>	<u>306,319</u>	<u>268,659</u>	<u>1,470,336</u>	<u>660,786</u>
Expendable - station programs/projects:					
Mental Health Reporter	42,518	-	-	42,518	36,851
Local production	178,577	-	-	178,577	54,926
Great Voices Radio Series support	-	9,323	-	9,323	9,323
Program acquisition/production	5,000	3,035	3,035	11,070	8,524
Operational support excluding administrative costs	36,451	-	-	36,451	36,451
	<u>262,546</u>	<u>12,358</u>	<u>3,035</u>	<u>277,939</u>	<u>146,075</u>
Capital projects	<u>23,803</u>	<u>-</u>	<u>-</u>	<u>23,803</u>	<u>-</u>
	<u>\$ 1,181,707</u>	<u>\$ 318,677</u>	<u>\$ 271,694</u>	<u>\$ 1,772,078</u>	<u>\$ 806,861</u>

ARIZONA PUBLIC MEDIA
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2015 AND 2014

7. 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>June 30, 2015 Total</u>	<u>June 30, 2014 Total</u>
Interest and dividends	\$ 59,096	\$ 23,637	\$ 14,595	\$ 97,328	\$ 76,529
Net unrealized gains/(loss) on investments	<u>(49,513)</u>	<u>(23,402)</u>	<u>(13,558)</u>	<u>(86,473)</u>	<u>194,944</u>
	<u>\$ 9,583</u>	<u>\$ 235</u>	<u>\$ 1,037</u>	<u>\$ 10,855</u>	<u>\$ 271,473</u>

8. Related party transactions:

AZPM receives a portion of its revenues and support from the University in the form of a general appropriation totaling \$2,497,686 and \$2,621,447 for operation purposes for the years ended June 30, 2015 and 2014.

AZPM has been advised by the University that its general appropriation will be reduced by \$2,000,000 to be phased in evenly over the next 5 fiscal years. The reduction will commence on July 1, 2014.

AZPM receives administrative support from the University in the form of legal and 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 indirect support value is calculated based on the Other Sponsored Activities Method developed by the Corporation for Public Broadcasting. The indirect support, recorded in nonoperating revenues, totaled \$1,765,809 and \$1,814,465 for the years ended June 30, 2015 and 2014.

9. Retirement plans:

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

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2015 AND 2014

9. Retirement plans (continued):

Defined Benefit Plan:

The Arizona State Retirement System (ASRS) administers a cost-sharing multiple-employer defined benefit pension plan, a cost-sharing multiple-employer defined benefit health insurance premium benefit (OPEB) plan and a cost-sharing multiple-employer defined benefit long-term disability (OPEB) plan. Full benefit eligible Classified Staff are required, and full benefit eligible AZPM professionals have the option to participate in the ASRS defined benefit plan. The Arizona State Retirement System Board governs the ASRS according to the provisions of A.R.S. Title 38, Chapter 5, Articles 2 and 2.1. ASRS is a component unit of the State of Arizona. The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. That report may be obtained by visiting www.azasrs.gov.

Benefits Provided - The ASRS provides retirement, health insurance premium supplement, long-term disability, and survivor benefits. State statute establishes benefits terms. Retirement benefits are calculated on the basis of age, average monthly compensation, and service credit as follows:

	Initial membership date:	
	Before July 1, 2011	On or after July 1, 2011
Years of service and age required to receive benefit	Sum of years and age equals 80 10 years age 62 5 years age 50* any years age 65	30 years age 55 25 years age 60 10 years age 62 5 years age 50* any years age 65
Final average salary is based on	Highest 36 consecutive months of last 120 months	Highest 60 consecutive months of last 120 months
Benefit percent per year of service	2.1% to 2.3%	2.1% to 2.3%
*with actuarially reduced benefits		

Retirement benefits for members who joined the ASRS prior to September 13, 2013, are subject to automatic cost-of-living adjustments based on excess investment earning. Members with a membership date on or after September 13, 2013, are not eligible for cost-of-living adjustments. Survivor benefits are payable upon a member's death. For retired members, the survivor benefit is determined by the retirement benefit option chosen. For all other members, the beneficiary is entitled to the member's account balance that includes the member's contributions and employer's contributions, plus interest earned.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2015 AND 2014

9. Retirement plans (continued):

Defined Benefit Plan (continued):

Contributions - In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2015, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.6 percent (11.48 percent for retirement and 0.12 percent for long-term disability) of the members' annual covered payroll, and the University/AZPM was required by statute to contribute at the actuarially determined rate of 11.6 percent (10.89 percent for retirement, 0.59 percent for health insurance premium benefit, and 0.12 percent for long-term disability) of the active members' annual covered payroll. In addition, the University/AZPM was required by statute to contribute at the actuarially determined rate of 9.57 percent (9.31 percent for retirement, 0.20 percent for health insurance premium benefit, and 0.06 percent for long-term disability) of annual covered payroll of retired members who worked for the University/AZPM in positions that would typically be filled by an employee who contributes to the ASRS. AZPM's contributions to the pension plan for the year ended June 30, 2015 were \$297,737. AZPM's contributions for the current and 2 preceding years for OPEB, all of which were equal to the required contributions, were as follows:

Years ended June 30	Health benefit supplement fund	Long-term disability fund
2015	15,886	3,304
2014	16,100	6,961
2013	17,796	6,642

Pension Liability - At June 30, 2015, AZPM reported a liability of \$4,789,299 for its proportionate share of the ASRS' net pension liability. The net pension liability was measured as of June 30, 2014. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2013, to the measurement date of June 30, 2014. AZPM's proportion of the net pension liability was based on AZPM's actual contributions to the plan relative to the total of the University's contributions. The University's contributions for the year ended June 30, 2014 was 3.94% of the total of all participating employer's contributions. AZPM's proportion measured as of June 30, 2014 was .82% of the total University's contribution, which was consistent with its proportion measured as of June 30, 2013.

Pension Expense and Deferred Outflows/Inflows of Resources - For the year ended June 30, 2015, AZPM recognized pension expense for ASRS of \$377,047. At June 30, 2015, AZPM reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2015 AND 2014

9. Retirement plans (continued):

Defined Benefit Plan (continued):

	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	\$ 243,404	\$ -
Net difference between projected and actual earnings on pension plan investments	-	837,503
Changes in proportion and differences between employer contributions and proportionate share of contributions	94,651	-
Contributions subsequent to the measurement date	297,737	-
	\$ 635,792	\$ 837,503

The \$297,737 reported as deferred outflows of resources related to ASRS pensions resulting from AZPM contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pensions will be recognized in pension expense as follows:

Year ending <u>June 30,</u>		
2016	\$	62,394
2017		62,394
2018		165,280
2019		209,372
	\$	499,440

Actuarial Assumptions—The significant actuarial assumptions used to measure the total pension liability are as follows:

Actuarial valuation date	June 30, 2013
Actuarial roll forward date	June 30, 2014
Actuarial cost method	Entry age normal
Investment rate of return	8%
Projected salary increases	3% - 6.75%
Inflation	3%
Permanent benefit increase	Included
Mortality rates	1994 GAM Scale BB

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2015 AND 2014

9. Retirement plans (continued):

Defined Benefit Plan (continued):

Actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2012.

The long-term expected rate of return on ASRS pension plan investments was determined to be 8.79 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset class	Target allocation	Long-term expected real rate of return
Equity	63 %	7.03 %
Fixed Income	25 %	3.20 %
Real estate	8 %	4.75 %
Commodities	4 %	4.50 %
	100 %	

Discount Rate - The discount rate used to measure the ASRS total pension liability was 8 percent, which is less than the long-term expected rate of return of 8.79 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board's funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the AZPM's Proportionate Share of the ASRS Net Pension Liability to Changes in the Discount Rate - The following table presents the AZPM's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what AZPM's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7 percent) or 1 percentage point higher (9 percent) than the current rate:

	1% decrease (7%)	Current discount rate (8%)	1% increase (9%)
AZPM's proportionate share of the net pension liability	\$ 6,053,427	\$ 4,789,299	\$ 4,103,442

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2015 AND 2014

9. Retirement plans (continued):

Defined Benefit Plan (continued):

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued ASRS financial report.

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 year ended June 30, 2015, plans offered by the Teachers Insurance Annuity Association/College Retirement Equities Fund (TIAA/CREF) and Fidelity Investments Tax-Exempt Services Company (Fidelity) were approved by the Arizona Board of Regents. 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. Non-vested contributions held by the University earn interest. 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 companies.

Funding Policy - The Arizona State Legislature establishes the contribution rates for active plan members and the University/AZPM. For the year ended June 30, 2015, plan members and the University/AZPM were each required by statute to contribute an amount equal to 7 percent of a member's compensation.

Pension Liability - At June 30, 2015, AZPM reported a liability of \$20,731 for non-vested defined contributions. If individuals terminate employment prior to vesting, any non-vested University/AZPM contributions are retained by the University/AZPM.

Pension Expense - For the year ended June 30, 2015, AZPM recognized pension expense for Defined Contribution Plans of \$36,486. For the year ended June 30, 2014, no forfeitures were utilized to reduce AZPM's pension expense.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2015 AND 2014

10. Individual station financial information:

STATEMENTS OF NET POSITION

	<u>KUAT-TV</u>	<u>KUAT-FM</u>	<u>KUAZ</u>	<u>June 30, 2015 combined total</u>	<u>June 30, 2014 combined total</u>
Assets and deferred outflows of resources					
Current assets:					
Cash and cash equivalents:					
Funds held by the U of A	\$ 8,738,646	\$ 58,966	\$ 1,791,733	\$ 10,589,345	\$ 9,297,937
Funds held by the U of A Foundation	2,208,285	345,202	465,256	3,018,743	2,652,152
Accounts receivable, net	434,263	78,860	467,673	980,796	779,778
Prepaid expenses	108,845	7,677	23,021	139,543	153,252
Interfund eliminations (transfers between stations)	<u>(2,245,640)</u>	<u>803,124</u>	<u>1,442,516</u>	<u>-</u>	<u>-</u>
Total current assets	<u>9,244,399</u>	<u>1,293,829</u>	<u>4,190,199</u>	<u>14,728,427</u>	<u>12,883,119</u>
Capital assets, net	1,157,662	118,645	308,610	1,584,917	1,886,157
Endowment investments	895,358	306,319	268,659	1,470,336	660,786
Other assets	<u>54,166</u>	<u>-</u>	<u>-</u>	<u>54,166</u>	<u>64,262</u>
Total assets	<u>2,107,186</u>	<u>424,964</u>	<u>577,269</u>	<u>17,837,846</u>	<u>2,611,205</u>
Deferred outflows of resources:	-	-	-	-	-
Deferred outflows related to pensions	<u>425,981</u>	<u>69,937</u>	<u>139,874</u>	<u>635,792</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>11,777,566</u>	<u>1,788,730</u>	<u>4,907,342</u>	<u>18,473,638</u>	<u>15,494,324</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2015 AND 2014

10. Individual station financial information (continued):

STATEMENTS OF NET POSITION (CONTINUED)

	<u>KUAT-TV</u>	<u>KUAT-FM</u>	<u>KUAZ</u>	<u>June 30, 2015 combined total</u>	<u>June 30, 2014 combined total</u>
Liabilities and deferred inflows of resources					
Current liabilities:					
Accounts payable	80,595	18,596	44,395	143,586	161,930
Accrued expenses and other liabilities	323,023	72,404	116,727	512,154	492,041
Unearned revenue	1,298	489	4,711	6,498	26,230
Current portion of defined contribution plans liability	<u>6,682</u>	<u>1,097</u>	<u>2,194</u>	<u>9,973</u>	<u>-</u>
Total current liabilities	<u>411,598</u>	<u>92,586</u>	<u>168,027</u>	<u>672,211</u>	<u>680,201</u>
Defined contribution plans liability, net of current portions	7,209	1,183	2,367	10,759	-
Net pension liability	<u>3,208,830</u>	<u>526,823</u>	<u>1,053,646</u>	<u>4,789,299</u>	<u>-</u>
Total liabilities	<u>3,627,637</u>	<u>620,592</u>	<u>1,224,040</u>	<u>5,472,269</u>	<u>680,201</u>
Deferred inflows of resources:					
Deferred inflows related to pensions	<u>561,127</u>	<u>92,125</u>	<u>184,251</u>	<u>837,503</u>	<u>-</u>
Total liabilities and deferred inflows of resources	<u>4,188,764</u>	<u>712,717</u>	<u>1,408,291</u>	<u>6,309,772</u>	<u>680,201</u>
Net position					
Investment in capital assets	1,157,662	118,645	308,610	1,584,917	1,886,157
Restricted:					
Nonexpendable - endowments	895,358	306,319	268,659	1,470,336	660,786
Expendable - station programs/projects	262,546	12,358	3,035	277,939	146,075
Expendable - capital projects	23,803	-	-	23,803	-
Unrestricted	<u>5,249,433</u>	<u>638,691</u>	<u>2,918,747</u>	<u>8,806,871</u>	<u>12,121,105</u>
Total net position	<u>\$ 7,588,802</u>	<u>\$ 1,076,013</u>	<u>\$ 3,499,051</u>	<u>\$ 12,163,866</u>	<u>\$ 14,814,123</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2015 AND 2014

10. Individual station financial information (continued):

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	<u>KUAT-TV</u>	<u>KUAT-FM</u>	<u>KUAZ</u>	June 30, 2015 combined total	June 30, 2014 combined total
Operating revenues:					
Grants and contracts	\$ 20,000	\$ -	\$ -	\$ 20,000	\$ 21,433
Auxiliary enterprises	<u>338,489</u>	<u>7,743</u>	<u>7,743</u>	<u>353,975</u>	<u>398,466</u>
	<u>358,489</u>	<u>7,743</u>	<u>7,743</u>	<u>373,975</u>	<u>419,899</u>
Operating expenses:					
Program services:					
Programming and production	4,108,105	352,480	1,482,914	5,943,499	5,845,531
Broadcasting	1,166,755	86,103	85,253	1,338,111	1,286,704
Public information and promotion	343,560	80,220	92,971	516,751	440,344
Support services:					
Management and general	551,684	198,221	227,827	977,732	1,151,218
Fundraising and membership development	<u>1,286,370</u>	<u>296,390</u>	<u>620,031</u>	<u>2,202,791</u>	<u>2,106,134</u>
Total operating expenses	<u>7,456,474</u>	<u>1,013,414</u>	<u>2,508,996</u>	<u>10,978,884</u>	<u>10,829,931</u>
Operating loss	<u>(7,097,985)</u>	<u>(1,005,671)</u>	<u>(2,501,253)</u>	<u>(10,604,909)</u>	<u>(10,410,032)</u>
Nonoperating revenues:					
General appropriation from U of A	1,622,742	305,053	569,891	2,497,686	2,621,447
Donated facilities and administrative support from U of A	1,190,189	165,441	410,179	1,765,809	1,814,465
Corporation for Public Broadcasting grants	1,244,444	-	293,297	1,537,741	1,403,122
Subscription and membership income	1,705,996	367,566	928,988	3,002,550	2,494,023
Business and underwriting	279,616	75,526	887,444	1,242,586	1,138,671
Legacies and bequests	864,293	105,113	261,294	1,230,700	1,101,367
Other gifts and contributions	841,520	47,213	7,213	895,946	86,095
Investment income, net	9,583	235	1,037	10,855	271,473
Other nonoperating revenues	<u>655,813</u>	<u>7,304</u>	<u>7,304</u>	<u>670,421</u>	<u>641,001</u>
Nonoperating revenue	<u>8,414,196</u>	<u>1,073,451</u>	<u>3,366,647</u>	<u>12,854,294</u>	<u>11,571,664</u>
Increase before capital additions	1,316,211	67,780	865,394	2,249,385	1,161,632
Capital grants, gifts and conveyances	<u>32,790</u>	<u>-</u>	<u>-</u>	<u>32,790</u>	<u>608,025</u>
Increase in net position	1,349,001	67,780	865,394	2,282,175	1,769,657
Net position, beginning of year, as restated	<u>6,239,801</u>	<u>1,008,233</u>	<u>2,633,657</u>	<u>9,881,691</u>	<u>13,044,466</u>
Net position, end of year	<u>\$ 7,588,802</u>	<u>\$ 1,076,013</u>	<u>\$ 3,499,051</u>	<u>\$ 12,163,866</u>	<u>\$ 14,814,123</u>

ARIZONA PUBLIC MEDIA

SCHEDULE OF AZPM'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - COST SHARING PLAN (ASRS)

YEAR ENDED JUNE 30, 2015
(schedule to be built prospectively from 2014; 2013 - 2005 information not available)

Reporting date (Measurement date)	2015 (2014)	2014 (2013)	2013 (2012)	2012 (2011)	2011 (2010)	2010 (2009)	2009 (2008)	2008 (2007)	2007 (2006)	2006 (2005)
AZPM's proportion of the net pension liability	0.8218 %	- %	- %	- %	- %	- %	- %	- %	- %	- %
AZPM's proportionate share of the net pension liability	4,789,299	-	-	-	-	-	-	-	-	-
AZPM's covered employee payroll	2,849,381	-	-	-	-	-	-	-	-	-
AZPM's proportionate share of the net pension liability as a percentage of its covered employee payroll	168 %	- %	- %	- %	- %	- %	- %	- %	- %	- %
Plan fiduciary net position as a percentage of total pension liability	69 %	- %	- %	- %	- %	- %	- %	- %	- %	- %

ARIZONA PUBLIC MEDIA

SCHEDULE OF PENSION CONTRIBUTIONS

YEAR ENDED JUNE 30, 2015

(schedule to be built prospectively from 2014; 2013 - 2005 information not available)

Reporting date (Measurement date)	2015 (2014)	2014 (2013)	2013 (2012)	2012 (2011)	2011 (2010)	2010 (2009)	2009 (2008)	2008 (2007)	2007 (2006)	2006 (2005)
Arizona State Retirement System (ASRS)										
Statutorily required contribution	\$ 297,737	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the contractually required contribution	<u>297,737</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
AZPM's covered employee payroll	\$ 2,667,114	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions as a percentage of covered employee payroll	11.16 %	- %	- %	- %	- %	- %	- %	- %	- %	- %

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STATEMENT OF FUNCTIONAL EXPENSES BY STATION

YEAR ENDED JUNE 30, 2015

	Program Services				Supporting Services			Total expenses
	Programming and production	Broadcasting	Public info and promotion	Total program services	Management and general	Fundraising and membership development	Total supporting services	
KUAT - TV								
Salaries	\$ 1,834,679	\$ 606,605	\$ 259,263	\$ 2,700,547	\$ 382,168	\$ 397,207	\$ 779,375	\$ 3,479,922
General operations	1,429,766	253,895	25,759	1,709,420	72,156	673,107	745,263	2,454,683
Travel and training	4,585	3,402	1,278	9,265	5,413	1,661	7,074	16,339
Indirect administration support	653,806	172,781	57,260	883,847	91,947	214,395	306,342	1,190,189
Depreciation	185,270	130,071	-	315,341	-	-	-	315,341
Total KUAT - TV expenses	4,108,106	1,166,754	343,560	5,618,420	551,684	1,286,370	1,838,054	7,456,474
KUAT - FM								
Salaries	151,027	63,971	60,890	275,888	139,706	169,165	308,871	584,759
General operations	128,453	4,480	5,686	138,619	23,805	77,178	100,983	239,602
Travel and training	64	184	274	522	1,674	648	2,322	2,844
Indirect administration support	55,909	13,727	13,370	83,006	33,037	49,398	82,435	165,441
Depreciation	17,027	3,741	-	20,768	-	-	-	20,768
Total KUAT - FM expenses	352,480	86,103	80,220	518,803	198,222	296,389	494,611	1,013,414
KUAZ								
Salaries	566,213	38,275	71,452	675,940	160,278	302,563	462,841	1,138,781
General operations	653,369	7,422	5,750	666,541	27,696	213,282	240,978	907,519
Travel and training	1,405	184	274	1,863	1,881	848	2,729	4,592
Indirect administration support	244,198	9,176	15,495	268,869	37,971	103,339	141,310	410,179
Depreciation	17,728	30,197	-	47,925	-	-	-	47,925
Total KUAZ expenses	1,482,913	85,254	92,971	1,661,138	227,826	620,032	847,858	2,508,996
	\$ 5,943,499	\$ 1,338,111	\$ 516,751	\$ 7,798,361	\$ 977,732	\$ 2,202,791	\$ 3,180,523	\$ 10,978,884

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STATEMENT OF FUNCTIONAL EXPENSES BY STATION

YEAR ENDED JUNE 30, 2014

	Program Services				Supporting Services			Total expenses
	Programming and production	Broadcasting	Public info and promotion	Total program services	Management and general	Fundraising and membership development	Total supporting services	
KUAT - TV								
Salaries	\$ 1,933,323	\$ 565,471	\$ 176,484	\$ 2,675,278	\$ 573,821	\$ 378,943	\$ 952,764	\$ 3,628,042
General operations	1,346,560	252,865	40,122	1,639,547	82,532	627,742	710,274	2,349,821
Travel and training	6,911	2,424	-	9,335	2,293	3,938	6,231	15,566
Indirect administration support	690,227	172,360	45,487	908,074	138,316	212,231	350,547	1,258,621
Depreciation	181,267	130,071	-	311,338	-	-	-	311,338
Total KUAT - TV expenses	4,158,288	1,123,191	262,093	5,543,572	796,962	1,222,854	2,019,816	7,563,388
KUAT - FM								
Salaries	96,482	58,354	55,004	209,840	129,451	165,531	294,982	504,822
General operations	87,756	8,826	8,911	105,493	28,667	74,557	103,224	208,717
Travel and training	75	107	-	182	994	1,040	2,034	2,216
Indirect administration support	38,706	14,130	13,422	66,258	33,413	50,637	84,050	150,308
Depreciation	14,763	3,031	-	17,794	-	-	-	17,794
Total KUAT - FM expenses	237,782	84,448	77,337	399,567	192,525	291,765	484,290	883,857
KUAZ								
Salaries	599,120	36,327	70,776	706,223	100,608	292,558	393,166	1,099,389
General Operations	585,361	3,952	12,624	601,937	31,964	194,670	226,634	828,571
Travel and training	342	108	-	450	1,090	1,627	2,717	3,167
Indirect administration support	248,813	8,481	17,514	274,808	28,069	102,660	130,729	405,537
Depreciation	15,825	30,197	-	46,022	-	-	-	46,022
Total KUAZ expenses	1,449,461	79,065	100,914	1,629,440	161,731	591,515	753,246	2,382,686
	\$ 5,845,531	\$ 1,286,704	\$ 440,344	\$ 7,572,579	\$ 1,151,218	\$ 2,106,134	\$ 3,257,352	\$ 10,829,931