

KBAQ-FM RADIO

A PUBLIC TELECOMMUNICATIONS ENTITY OPERATED BY

MARICOPA COUNTY COMMUNITY COLLEGE DISTRICT

AND ARIZONA STATE UNIVERSITY

REPORT ON AUDIT OF FINANCIAL STATEMENTS

JUNE 30, 2008

KBAQ-FM RADIO
A PUBLIC TELECOMMUNICATIONS ENTITY OPERATED BY
MARICOPA COUNTY COMMUNITY COLLEGE DISTRICT
AND ARIZONA STATE UNIVERSITY
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JUNE 30, 2008

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INDEPENDENT AUDITOR'S REPORT

Maricopa County Community College District,
Arizona State University and
KBAQ-FM Radio

We have audited the accompanying financial statements of the business-type activities of KBAQ-FM Radio (Station), a public telecommunications entity operated by Maricopa County Community College District (District) and Arizona State University (ASU), as of and for the year ended June 30, 2008, which collectively comprise the Station's financial statements as listed in the table of contents. These financial statements are the responsibility of the Station's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the Station's financial statements are intended to present the financial position and results of operations and cash flows of only those portions of the Maricopa County Community College District's and Arizona State University's Restricted Funds that are attributable to the Station's transactions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of KBAQ-FM Radio as of June 30, 2008, and the changes in financial position and cash flows for the year then ended in conformity with accounting principals generally accepted in the United States of America.

Cronstrom, Osuch + Company, P.C.

Cronstrom, Osuch & Company, P.C.

October 29, 2008

Basic Financial Statements

KBAQ-FM RADIO
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2008

This discussion and analysis introduces the basic financial statements and provides an overview of the Station's financial activities for the fiscal year end June 30, 2008. Please read it in conjunction with the financial statements, which immediately follow.

Basic Financial Statements:

Beginning in FY 2002, KBAQ-FM Radio (the Station), operated by the Maricopa County Community College District (MCCCD), was required to present annual financial statements in accordance with pronouncements issued by the Governmental Accounting Standards Board (GASB). The basic financial statements consist of the following:

The Statement of Net Assets reflects the financial position of the Station at June 30, 2008. It shows the various assets owned or controlled, related liabilities and other obligations, and the various categories of net assets.

The Statement of Revenues, Expenses, and Changes in Net Assets reflects the results of operations and other changes for the year ended June 30, 2008. It shows the various revenues and expenses, both operating and nonoperating, reconciling the beginning net assets amount to the ending net assets amount – which is shown on *The Statement of Net Assets*, described above.

The Statement of Cash Flows reflects the inflows and outflows of cash and cash equivalents for the year ended June 30, 2008. It shows 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*, described above. 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*, described above.

Financial Highlights and Analysis:

Consistent with its goal of being a cultural resource to the residents of central Arizona, KBAQ-FM broadcasts 24 daily hours of classical music and arts information. Major funding sources include the two institutional licensees (MCCCD and Arizona State University), the Corporation for Public Broadcasting (CPB), listeners, and underwriters. Each of these sources is subject to various economic pressures.

For the fiscal year, listener donations were down. Over the same period, audience estimates for the station also showed a decrease. While there is some danger in ascribing reasons for the listener loss, we suspect the long election process played some part. KBAQ shares some of the same audience as KJZZ, the NPR news station. It is possible that election coverage drew some listeners away, and they may return in a post-election world.

Underwriting on the station showed a sizeable increase. This occurred mostly before the national economy soured. There were also revenues in this category that came from payments made on contracts from the previous fiscal year, which was a banner year with a robust economy.

Salary and benefits expenses showed an increase consistent with adding a new position. There was some turnover in staff, and a necessity to hire an additional announcer.

Budgets:

The Station does not adopt a formal budget. However, a budget for MCCCCD is adopted which includes the Station. The budget of the Station is used for internal monitoring but is not required and therefore is not presented.

Although the primary focus of this document is on the results of activity for fiscal year 2007-08, comparative data is presented for the previous fiscal year 2006-07. This Management’s Discussion and Analysis (MD&A) uses the prior year as a reference point in illustrating issues and trends for determining whether the Station’s financial health may have improved or deteriorated.

The condensed financial information below highlights the main categories of *The Statement of Net Assets*. Assets and liabilities are distinguished as to their current and noncurrent natures. Current liabilities are typically those obligations intended for liquidation or payment within the next fiscal year; while current assets are those resources that are available for use in meeting the ongoing operating needs of the Station, including its current liabilities. Net assets are divided into two categories, capital assets and unrestricted assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Station is improving or deteriorating.

<i>Statement of Net Assets</i>		
<i>As of June 30, 2008</i>		
	<u>2008</u>	<u>2007</u>
Assets		
Current assets	\$ 2,401,482	\$ 2,399,057
Capital assets, net	787,554	890,399
Total assets	<u>3,189,036</u>	<u>3,289,456</u>
Liabilities		
Current liabilities	187,674	295,946
Net Assets		
Capital assets, net of related debt	787,554	890,399
Unrestricted net assets	<u>2,213,808</u>	<u>2,103,111</u>
Total net assets	<u>\$ 3,001,362</u>	<u>\$ 2,993,510</u>

The condensed financial information below highlights the main categories of *The Statement of Revenues, Expenses, and Changes in Net Assets*. Depreciation expense is recorded in accordance with the adoption of the full accrual basis of accounting. The construction and acquisition of capital assets, although budgeted and tracked as an expenditure in the accounting system, is not reflected as an expense in these statements. Rather, such transactions are capitalized and reported in net assets – with the systematic allocation of such costs (depreciation) expensed over the useful lives of the assets constructed or acquired.

The Station shows an operating loss, reflective of the fact the two largest revenue sources – private gifts and underwriting – are considered nonoperating revenues. For a description of the difference between operating and nonoperating, please refer to the Summary of Significant Accounting Policies (Note 1), which directly follows the presentation of the financial statements.

<i>Statement of Revenues, Expenses, and Changes in Net Assets</i>		
<i>As of June 30, 2008</i>		
	<u>2008</u>	<u>2007</u>
Operating revenues	\$ 709,442	\$ 671,614
Operating expenses:		
Education and general	2,486,914	2,303,658
Depreciation	120,152	156,182
Total operating expenses	<u>2,607,066</u>	<u>2,459,840</u>
Operating loss	<u>(1,897,624)</u>	<u>(1,788,226)</u>
Nonoperating revenues	<u>1,905,476</u>	<u>1,865,376</u>
Increase in net assets	7,852	77,150
Net assets, June 30, 2007	<u>2,993,510</u>	<u>2,916,360</u>
Net assets, June 30, 2008	<u>\$ 3,001,362</u>	<u>\$ 2,993,510</u>

Total operating expenses increased, but within expected parameters. The majority of the increase was due to additional personnel expense (the addition of new staff as well as increased costs for existing staff) and a rise in program and carriage fees.

Capital Assets:

Capital assets at June 30, 2008 and 2007 totaled \$787,554 and \$890,399, respectively. The net decrease in capital assets of \$102,845 was largely attributed to current year depreciation on capital assets. During the fiscal year, the Station did not have any significant capital asset additions. See Note 2.A.2 for further information on the Stations capital assets.

Future Conditions:

- Revenue sources for the coming year are unpredictable in the existent economy. We are prepared for decreases from all revenue sources, including the Corporation for Public Broadcasting Community Service Grant, licensee support, listener support, and underwriting. While listener support is down marginally for the first four months of the present fiscal year, underwriting revenues are up substantially (37%). It seems unlikely that this increase will hold up throughout the year, but it may help stabilize future months that are less productive.
- The station continues to await a decision from the Federal Communications Commission on a power increase and transmitter move. The waiting period is now being counted in years, with the start of a fourth year without a decision soon to be upon us. There has been some movement on the issue, but no definitive decision.
- At the end of December the KBAQ General Manager will retire. As the only GM the station has had, there will be a break in the continuity of leadership. Following a national search and hire, the present GM will be retained to assist in the transition.
- As noted previously, there is some reason to believe the KBAQ audience will rebound in numbers in coming months. Without the compelling news of the election, and without the economic woes of the nation commanding attention with the “disaster of the day,” we think audience building efforts will be more successful.

Requests for information:

This financial report is designed to provide the readers with a general overview of the Station’s finances and to show the Station’s accountability for monies it receives. If you have any questions about this report, or need additional financial information contact the Maricopa County Community College District, Financial Services Office, at 2411 W. 14th Street, Tempe, Arizona 85281.

KBAQ-FM RADIO
A PUBLIC TELECOMMUNICATIONS ENTITY OPERATED BY
MARICOPA COUNTY COMMUNITY COLLEGE DISTRICT
AND ARIZONA STATE UNIVERSITY
STATEMENT OF NET ASSETS
JUNE 30, 2008

ASSETS

Current Assets:	
Cash and Investments	\$ 2,252,193
Receivables (net of allowance)	
Interest	7,014
Underwriting Receivable (net of \$9,096)	129,493
Prepays	12,782
Total Current Assets	<u>2,401,482</u>
Capital Assets (net)	787,554
Total Noncurrent Assets	<u>787,554</u>
Total Assets	<u>3,189,036</u>

LIABILITIES

Current Liabilities:	
Accounts Payable	6,691
Unearned Revenue	180,983
Total Current Liabilities	<u>187,674</u>

NET ASSETS

Invested in Capital Assets	787,554
Unrestricted	2,213,808
Total Net Assets	<u>\$ 3,001,362</u>

The accompanying notes to financial statements are an integral part of this statement.

KBAQ-FM RADIO
A PUBLIC TELECOMMUNICATIONS ENTITY OPERATED BY
MARICOPA COUNTY COMMUNITY COLLEGE DISTRICT
AND ARIZONA STATE UNIVERSITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FISCAL YEAR ENDED JUNE 30, 2008

REVENUES

Operating Revenues:	
Tuition and Fees	\$ 154,031
Private Grants and Contracts	172,707
Donated Administrative Support	382,704
Total Operating Revenues	<u>709,442</u>

EXPENSES

Operating Expenses:	
Educational and General	
Programming and Production	1,038,913
Broadcasting	292,842
Management and General	579,319
Fundraising	575,840
Depreciation	120,152
Total Operating Expenses	<u>2,607,066</u>
Operating Loss	<u>(1,897,624)</u>

NONOPERATING REVENUES

State Appropriations	255,390
Private Gifts	691,685
Underwriting	882,945
Investment Income	72,317
Other	3,139
Total Nonoperating Revenues	<u>1,905,476</u>
Increase in Net Assets	7,852
Net Assets, Beginning of year	2,993,510
Net Assets, End of year	<u><u>\$ 3,001,362</u></u>

The accompanying notes to financial statements are an integral part of this statement.

KBAQ-FM RADIO
A PUBLIC TELECOMMUNICATIONS ENTITY OPERATED BY
MARICOPA COUNTY COMMUNITY COLLEGE DISTRICT
AND ARIZONA STATE UNIVERSITY
STATEMENT OF CASH FLOWS
FISCAL YEAR ENDED JUNE 30, 2008

CASH FLOWS FROM OPERATING ACTIVITIES

Tuition and fees	\$ 154,031
Private grants and contracts	179,407
Payments to employees	(966,439)
Payments to suppliers	(1,195,003)
Other receipts	3,139
Net cash used by operating activities	<u>(1,824,865)</u>

**CASH FLOWS FROM NONCAPITAL
FINANCING ACTIVITIES**

State appropriations	255,390
Gifts and underwriting received for other than capital purposes	1,486,124
Net cash provided by noncapital financing activities	<u>1,741,514</u>

**CASH FLOWS FROM CAPITAL AND RELATED
FINANCING ACTIVITIES**

Purchase of capital assets	(17,307)
Net cash used by capital and related financing activities	<u>(17,307)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest on investments	78,144
Net cash provided by investing activities	<u>78,144</u>
Net decrease in cash	(22,514)
Cash and investments - beginning of year	2,274,707
Cash and investments - end of year	<u><u>\$ 2,252,193</u></u>

(Continued)

The accompanying notes to financial statements are an integral part of this statement.

KBAQ-FM RADIO
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STATEMENT OF CASH FLOWS
FISCAL YEAR ENDED JUNE 30, 2008

(Concluded)

Reconciliation of net operating revenues (expenses) to net cash provided (used) by operating activities:

Operating loss	\$ (1,897,624)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:	
Other receipts	3,139
Depreciation expense	120,152
Change in assets and liabilities:	
Prepays	6,807
Accounts payable	(64,039)
Unearned revenue	6,700
Net cash used by operating activities	<u><u>\$ (1,824,865)</u></u>

The accompanying notes to financial statements are an integral part of this statement.

KBAQ-FM RADIO
A PUBLIC TELECOMMUNICATIONS ENTITY OPERATED BY
MARICOPA COUNTY COMMUNITY COLLEGE DISTRICT
AND ARIZONA STATE UNIVERSITY
NOTES TO BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of KBAQ-FM Radio (the Station) conform to accounting principles generally accepted in the United States of America applicable to governmental units as promulgated by the Governmental Accounting Standards Board. A summary of the Station's more significant accounting policies follows.

A. Reporting Entity

The Station is a joint operation of the Maricopa County Community College District (District) and Arizona State University (ASU) in Phoenix, Arizona, under a license granted by the Federal Communications Commission. The Station is not a component unit of either entity. The District and ASU provide administrative and other financial support to the Station. The Station's financial statements include those portions of the District's and ASU's Restricted Funds for which the Station has financial accountability. Financial accountability for the Station remains jointly with the District and ASU.

B. Basic Financial Statements

The basic financial statements (i.e., the statement of net assets and the statement of revenues, expenses and changes in net assets) report information on all of the nonfiduciary activities of the Station. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The Station had no governmental activities or component units during the fiscal year.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The basic financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. All internal activity has been eliminated.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the basic financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

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NOTES TO BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

The Station distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Station's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Station's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Net Assets

1. Deposits and Investments

The Station's cash and cash equivalents are considered to be cash on hand, demand deposits, cash and investments held by the State Treasurer, and highly liquid investments with maturities of three months or less from the date of acquisition.

Arizona Revised Statutes (A.R.S.) authorize the Station to invest public monies in the State and County Treasurer's investment pools; U.S. Treasury obligations; specified state and local government bonds; and interest-earning investment contracts such as savings accounts, certificates of deposit, and repurchase agreements in eligible depositories.

The State Board of Deposit provides oversight for the State Treasurer's pools, and the Local Government Investment Pool Advisory Committee provides consultation and advice to the Treasurer. The fair value of a participant's position in the pool approximates the value of that participant's pool shares. No comparable oversight is provided for the County Treasurer's investment pool, and that pool's structure does not provide for shares. The Station's investments in the State Treasurer's investment pool did not receive a credit quality rating from a national rating agency.

2. Receivables

All receivables are shown net of allowance for uncollectibles.

KBAQ-FM RADIO
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MARICOPA COUNTY COMMUNITY COLLEGE DISTRICT
AND ARIZONA STATE UNIVERSITY
NOTES TO BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concl'd)

3. Capital Assets

Capital assets of the Station consist of land improvements, buildings, improvements other than buildings, and equipment. Capital assets are stated at cost at date of acquisition, or fair market value at date of donation in the case of gifts. Major outlays for assets or improvements to assets are capitalized as projects are constructed. These are categorized as construction in progress until completed, at which time they are reclassified to the appropriate asset type. Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the financial statements are as follows:

<u>Asset Category</u>	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land	Not applicable	Not applicable	Not applicable
Buildings	\$ 100,000	Straight-line	40 years
Land improvements	5,000	Straight-line	20 years
Equipment	5,000	Straight-line	3-7 years

4. Net Assets

In the basic financial statements, net assets are reported in three categories: net assets invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. Net assets invested in capital assets, net of related debt is separately reported because the Station reports all Station assets which make up a significant portion of total net assets. Restricted net assets account for the portion of net assets restricted by parties outside the Station. Unrestricted net assets are the remaining net assets not included in the previous two categories.

5. Income Taxes

The Station is exempt from federal income tax, except on activities unrelated to its exempt purpose, under Internal Revenue Code section 501. Consequently, there was no provision for income taxes for the fiscal year.

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MARICOPA COUNTY COMMUNITY COLLEGE DISTRICT
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NOTES TO BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2008

NOTE 2 - DETAILED NOTES ON ALL FUNDS

A. Assets

1. Deposits and Investments

Deposits and investments at June 30, 2008 consist of the following:

Cash on hand	\$ 200
Cash in the bank	429,099
Investments	
State Treasurer's Investment Pool	<u>1,822,894</u>
Total cash and investments	<u>\$ 2,252,193</u>

The Station does not have a formal policy with respect to custodial credit risk; however, all station investments are made through the State Treasurer's Investment Pool, and thereby follow the policies of that agency.

Investments - At June 30, 2008, the Station's investments are reported at fair value. The Station's investment in the State Treasurer's Investment Pool represents a proportionate interest in the Pool's portfolio; however, the Station's portion is not identified with specific investments.

Custodial credit risk. For an investment, custodial credit risk is the risk that, in the event of the counterparty's failure, the Station will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All securities purchased are required to be delivered to the Station's custodial bank or held by an independent third-party financial institution in the name of the Station. Additionally, the Station personnel are not affiliated or related to investment brokers or custodians in accordance with state statutes. Accordingly, the Station has limited exposure to custodial credit risk.

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AND ARIZONA STATE UNIVERSITY
NOTES TO BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2008

NOTE 2 - DETAILED NOTES ON ALL FUNDS (Concl'd)

2. Capital Assets

Capital asset activity for the year ended June 30, 2008 was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Depreciable assets				
Land improvements	\$ 2,998	\$ -0-	\$ -0-	\$ 2,998
Buildings and improvements	1,002,000	-0-	-0-	1,002,000
Equipment	<u>1,045,313</u>	<u>17,307</u>	<u>(61,737)</u>	<u>1,000,883</u>
Total depreciable assets	<u>2,050,311</u>	<u>17,307</u>	<u>(61,737)</u>	<u>2,005,881</u>
Accumulated depreciation				
Land improvements	(1,644)	(150)	-0-	(1,794)
Buildings and improvements	(252,032)	(50,100)	-0-	(302,132)
Equipment	<u>(906,236)</u>	<u>(69,902)</u>	<u>61,737</u>	<u>(914,401)</u>
Total accumulated depreciation	<u>(1,159,912)</u>	<u>(120,152)</u>	<u>61,737</u>	<u>(1,218,327)</u>
Total Capital Assets	<u>\$ 890,399</u>	<u>\$ (102,845)</u>	<u>\$ -0-</u>	<u>\$ 787,554</u>

3. Unearned Revenues

Changes in unearned revenues for the year ended June 30, 2008 were as follows.

Beginning balance, July 1, 2007	\$ 225,216
Additions:	
Current year contributions and grants	49,946
Deductions:	
Contributions and grants recognized as revenue	(43,140)
Prepaid underwriter contributions	<u>(51,039)</u>
Ending balance, June 30, 2008	<u>\$ 180,983</u>

Unearned revenues at June 30, 2008 consist of unexpended grants and unearned underwriting contributions for programs not yet broadcast.