KAET-TV
(A Department of Arizona State University)

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

YEARS ENDED JUNE 30, 2016 AND 2015

KAET-TV
(A Department of Arizona State University)
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INDEPENDENT AUDITORS' REPORT

Board of Directors
KAET-TV (A Department of Arizona State University)
Phoenix, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of KAET-TV (A Department of Arizona State University), which comprise the statements of net position as of June 30, 2016 and 2015, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; 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 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 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 entity'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 entity'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.

A member of Nexia International

Board of Directors
KAET-TV (A Department of Arizona State University)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of KAET-TV as of June 30, 2016 and 2015, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management discussion and analysis on pages 3 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. 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 audit was conducted for the purpose of forming an opinion on the basic financial statements of KAET-TV. The accompanying supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information listed in the table of contents is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Phoenix, Arizona
February 12, 2017

Introduction

The following Management's Discussion and Analysis (MD&A) provides an overview of the financial position and activities of KAET-TV (the "Station"), a Department of Arizona State University (the "University"), and is designed to assist in the understanding of the accompanying financial statements for the years ended June 30, 2016 and 2015.

These financial statements were prepared in accordance with reporting guidelines of the Corporation for Public Broadcasting (CPB) and Governmental Accounting Standards Board (GASB) principles as they apply to public colleges and universities. The guidelines provide a condensed perspective of the Station's assets, liabilities, net position, revenues, expenses, and cash flows.

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.

Statement of Net Position

The Statement of Net Position presents the financial position of KAET-TV at the end of the fiscal year and includes all assets and liabilities of the Station. Assets are what the Station owns and are generally measured in current value, except for property and equipment, which are recorded at historical cost less accumulated depreciation. Assets are categorized as either current or non-current. Current assets are generally considered to be convertible to cash within one year. Current liabilities are obligations that will be paid within one year of the statement date. The difference between total assets and total liabilities, referred to as net position, is one indicator of the financial condition of the Station.

A summarized comparison of KAET-TV's assets, liabilities, and net position at June 30, 2016, 2015 and 2014 follows:

	2016	2015	2014
Assets			
Current Assets	$ 6,083,341	$ 4,713,288	$ 558,638
Non-Current Assets Other Than Capital Assets	475,740	510,456	519,077
Capital Assets, Net	2,712,462	2,909,205	3,670,398
Total Assets	9,271,543	8,132,949	4,748,113
Liabilities			
Current Liabilities	4,915,179	3,942,078	951,348
Non-Current Liabilities	229,444	881,123	1,498,471
Total Liabilities	5,144,623	4,823,201	2,449,819
Net Position			
Net Investment in Capital Assets	2,068,889	1,644,423	1,805,993
Restricted	103,053	110,097	111,318
Unrestricted	1,954,978	1,555,228	380,983
Total Net Position	$ 4,126,920	$ 3,309,748	$ 2,298,294

Statement of Net Position (Continued)

The Station's net position increased by approximately $0.8 million, or 25% for 2016, primarily due to an increase in grants, pledges and other receivables of $1.5 million, offset by a decrease in capital assets of $0.2 million due to depreciation, an increase in unearned revenue of $0.4 million, and a decrease in equipment loan by $0.6 million.

The Station's net position increased by approximately $1.0 million, or 44% for 2015, primarily due to an increase in cash and cash equivalents of $0.9 million, an increase in grants, pledges and other receivables of $3.2 million, offset by a decrease in capital assets of $0.8 million due to depreciation, an increase in unearned revenue of $3.1 million, and a decrease in equipment loan by $0.6 million.

During 2016, the Station's current liabilities increased by $1 million. Capital equipment loan decreased by $0.6 million, accounts payable increased by $0.6 million and unearned revenue increased by $0.4 million.

During 2015, the Station's current liabilities increased by $3.0 million. Accounts payable decreased by $100,000, unearned revenue increased by $3.1 million and current maturities of note payable increased by $20,000.

Statement of Revenues, Expenses and Changes in Net Position

Activities are reported as either operating or non-operating. Operating revenues generally represent educational service grants and corporate underwriting grants. Operating expenses are incurred in the normal operations of the Station. Included in operating expenses is a provision for depreciation on property and equipment. The difference between the two generally results in an operating loss. Most University Licensee's, including KAET-TV, will normally have an operating loss since significant recurring revenues, such as University support, and donor gifts are required by the CPB and accounting principles generally accepted in the United States of America, to be shown as non-operating revenues.

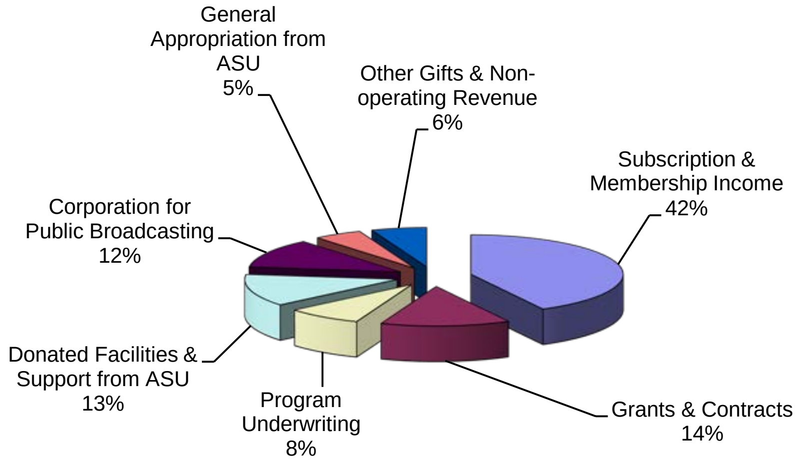
Statement of Revenues, Expenses and Changes in Net Position (Continued)

The Statement of Revenues, Expenses, and Changes in Net Position presents the Station's results of operations. A summarized comparison of the Station's revenues, expenses, and changes in net position for the years ended June 30, 2016, 2015, and 2014 is as follows:

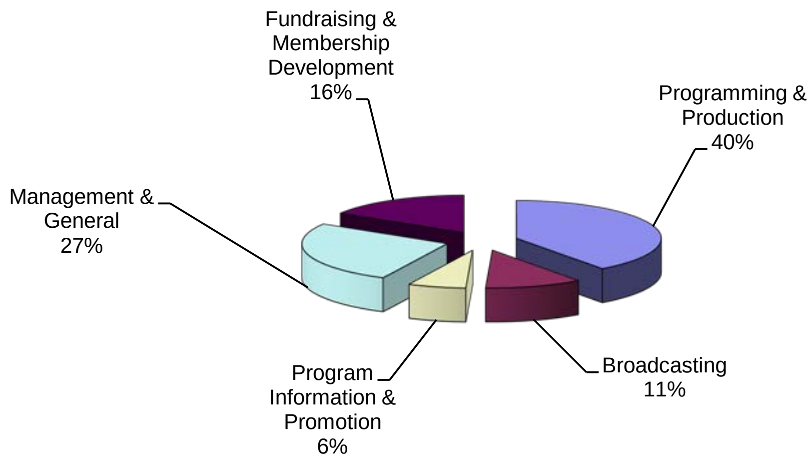
	2016	2015	2014
Operating Revenues			
Grant and Contracts	$ 2,185,746	$ 755,266	$ 785,952
Program Underwriting	1,282,867	1,399,680	1,334,718
Total Operating Revenues	3,468,613	2,154,946	2,120,670
Operating Expenses			
Program Services			
Local Programming and Production	6,054,888	4,810,670	5,107,481
Broadcasting	1,639,973	1,269,712	1,321,803
Program Information and Promotion	980,561	591,614	531,355
Supporting Services			
Management and General	4,025,357	3,886,672	3,884,466
Fundraising and Membership Development	2,462,031	3,268,958	3,581,205
Total Operating Expenses	15,162,810	13,827,626	14,426,310
Operating Loss	(11,694,197)	(11,672,680)	(12,305,640)
Non-Operating Revenue (Expenses)			
Subscription and Membership Income	6,739,144	6,576,724	6,086,349
Indirect Administrative Support from the University	2,095,776	2,254,920	1,885,116
Corporation for Public Broadcasting Grants	1,919,101	1,769,035	1,813,984
General Appropriation from ASU	820,072	815,656	286,571
Other Gifts and Non-Operating Revenue	887,501	1,227,514	1,792,811
Investment Income	2,405	975	971
In-Kind Contributions	54,414	40,531	40,420
Unrealized Investment Gain (Loss)	(7,044)	(1,221)	12,125
Total Non-Operating Revenues	12,511,369	12,684,134	11,918,347
Change in Net Position	817,172	1,011,454	(387,293)
Net Position, Beginning of Year	3,309,748	2,298,294	2,685,587
Net Position, End of Year	$ 4,126,920	$ 3,309,748	$ 2,298,294

The following graphs illustrate the operating and non-operating revenues and expenses for the year ended June 30, 2016.

Operating & Non-Operating Revenues
2016

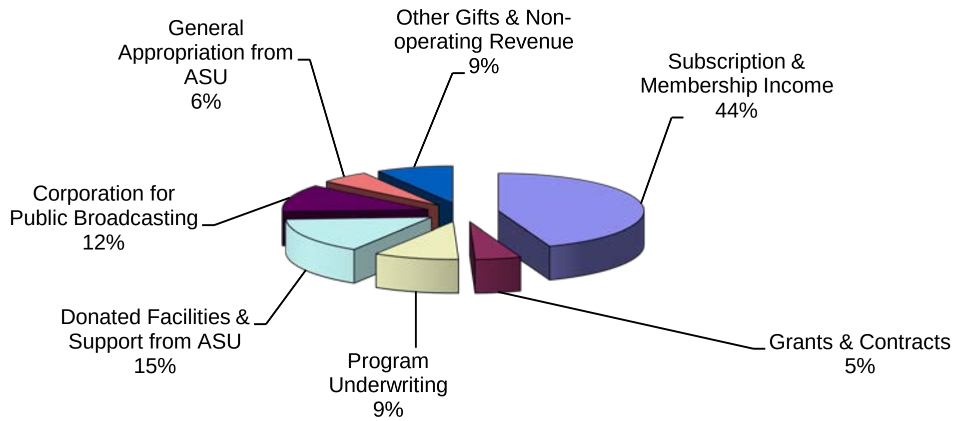


Operating & Non-Operating Expenses
2016

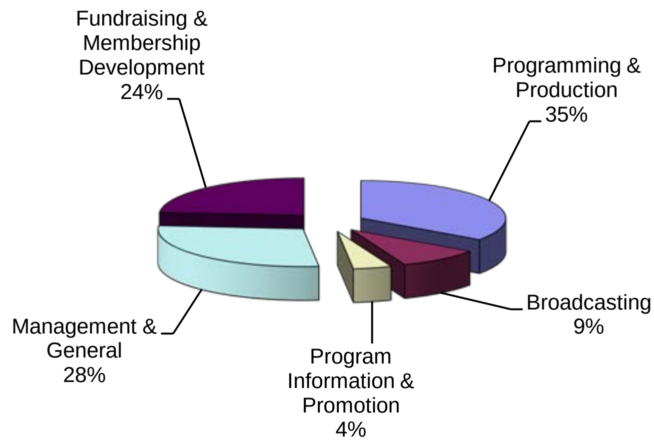


The following graphs illustrate the operating and non-operating revenues and expenses for the year ended June 30, 2015.

Operating & Non-Operating Revenues
2015



Operating & Non-Operating Expenses
2015



Operating revenues and expenses

KAET-TV's operating revenues increased by $1.3 million, or 61%, in fiscal year 2016. The increase is comprised of a $1.4 million increase in grants and contracts revenue, offset by $116,813 decrease in program underwriting revenue.

KAET-TV's operating revenues increased by $34,000, or 2%, in fiscal year 2015. The increase is comprised of a $31,000 decrease in grants and contracts revenue and a $65,000 increase in program underwriting revenue.

Operating expenses increased by $1.3 million, or 10%, in fiscal year 2016. The Station increased programmatic expenditures by $2.0 million, increased management and general expenses by $138,685 and decreased fund raising and membership development expenses by $0.8 million

Operating expenses decreased by $0.6 million, or 4%, in fiscal year 2015. The Station increased indirect administrative support expenditures by $0.4 million, decreased other operating expense by $0.1 million, decreased professional fees and services by $0.3 million, decreased depreciation expense by $0.4 million, and decreased supplies expense by $0.2 million.

Non-operating revenues and expenses

Non-operating revenues for the Station decreased by $172,765, or 1%, in fiscal 2016 over fiscal year 2015. Fiscal year 2016 subscription and membership income increased by $162,420, indirect administrative support from the University decreased by $159,144, community service grants and Corporation for Public Broadcasting grants increased by 150,066, and a decrease of $340,013 in grants and other gifts.

Non-operating revenues for the Station increased by $0.8 million, or 7%, in fiscal 2015 over fiscal year 2014. Fiscal year 2015 subscription and membership income increased by $0.5 million, indirect administrative support from the University increased by $0.4 million, general appropriations from the University increase $0.5 million and grants and other gifts decreased by $0.6 million.

Statement of Cash Flows

The Statement of Cash Flows provides information about the Station's financial results by reporting the major sources and uses of cash. A summarized comparison of KAET-TV cash flows for the years ended June 30, 2016, 2015, and 2014 follows:

	2016	2015	2014
Cash Provided (Used) by Operating Activities	$ (9,307,561)	$ (8,857,370)	$ (8,951,623)
Non-Capital Financing Activities	10,365,818	10,388,929	9,979,715
Capital Financing Activities	(1,234,649)	(599,623)	(748,233)
Investing Activities	2,405	975	973
Net Increase (Decrease) in Cash and Cash Equivalents	(173,987)	932,911	280,830
Cash and Cash Equivalents, Beginning of Year	1,301,138	368,227	87,397
Cash and Cash Equivalents, End of Year	$ 1,127,151	$ 1,301,138	$ 368,227

Statement of Cash Flows (Continued)

In fiscal year 2016, the Station's cash decreased by $173,987, primarily due to the decrease in the 2016 other gifts and non-operating revenues.

In fiscal year 2015, the Station's cash increased by $0.9 million, primarily due to the increase in the 2015 membership income, grants and other gifts.

Non-capital financing activities consist of general appropriations from Arizona State University, Grants from the Corporation for Public Broadcasting and general gifts from viewers.

Capital and Debt Analysis

As of June 30, 2016, KAET-TV had $2.7 million in capital assets, net of accumulated depreciation. The decrease of $0.2 million or 7% in 2016, consisted primarily of depreciation expense and an increase of $0.6 million in on-air production workflow capital assets.

As of June 30, 2015, KAET-TV had $2.9 million in capital assets, net of accumulated depreciation. The decrease of $0.8 million or 21% in 2015, consisted primarily of depreciation expense.

The federally mandated Telecommunications Act of 1996 required all public television stations be able to broadcast on digital television channels by May 2003. KAET successfully met the mandate early and began broadcasting its digital signal in April 2002. KAET also met early the federal mandate for discontinuing Analog Broadcast in April 2009. Currently, the station broadcasts PBS and locally produced programs on Eight HD - Digital 8.1, broadcasts travel and how-to programs on Eight Life – Digital 8.2, and broadcasts documentary and non-fiction programs on Eight World – Digital 8.3. Selected programming includes Descriptive Video Service for the visually impaired on secondary audio channels. KAET broadcasts an additional service as Digital 8.4, which includes still images of Arizona, KBAQ-FM Classical music, and Sun Sounds reading service for the visually impaired. The digital conversion of KAET's production facilities and main transmitter on South Mountain has been completed. Six of our seven translators throughout Arizona have been converted from analog to digital operation. The next phase will include the conversion of locally produced archived content to digital formats and the conversion of the final translator to digital.

Long-Term Debt

There was no new long-term debt in the fiscal year 2016 and principal repayments totaled $621,209 in fiscal 2016.

There was no new long-term debt in the fiscal year 2015 and principal repayments totaled $599,623 in fiscal 2015.

The repayment terms are as follows: 8 years; 3.6% interest rate, first payment was due on June 20, 2010 and every June 30, thereafter; principal and interest payments for all years; no penalty for early, full or partial payment.

Economic Outlook

KAET management believes the Station is continuing to better position itself to advance its mission of serving the people of Arizona through the development and operation of public telecommunications systems and services for instructional, educational, informational, and cultural purposes.

KAET-Arizona PBS is in the business of fostering an educated, informed, cultured and civil society to advance the greatest democracy in the world. KAET is the public media enterprise of Arizona State University with over 1 million viewers each week and consistently ranks among the most-viewed public television stations per capita in the country.

Gift revenue continues to be the major source of funding for the Station supplemented by grants from the Corporation for Public Broadcasting (CPB) along with grants from First Things First with Arizona Department of Education. CPB grants are expected to remain stable over at least the next two years via advance federal appropriations. First Things First grants are expected to grow the next two years as the programs continue to grow. In addition, with a variety of strategic fund-raising initiatives, donor contributions are expected to begin to grow again relative to the two years prior to 2016.

Arizona PBS, with more than 1 million viewers each week, is now a part of the Walter Cronkite School of Journalism and Mass Communication (Cronkite), continuing to provide quality PBS programming while serving as a national hub for news innovation and reinvention. Eight is the largest media organization operated by a journalism school in the world. The station had been part of ASU's Office of Public Affairs. Under Cronkite, Arizona PBS also will serve as a journalistic "teaching hospital," tapping into the talents of advanced students in journalism and other disciplines who work under the guidance of top professionals from the ASU faculty and Eight staff to provide rich, new and innovative broadcast and digital content. Eight will now enjoy greater University support and integration.

Since moving into its new digital media center on the Downtown Phoenix Campus of Arizona State University seven years ago, KAET has not only enjoyed closer proximity to government and community leaders, but the location has allowed KAET to fulfill a strategic vision as a community convener, hosting (and renting) its centrally located facilities for a variety of community events in Studio A. With the relocation, KAET has moved most of the day-to-day productions (e.g. Horizon, Check Please) to Studio B, thus allowing KAET to utilize Studio A for other local productions (e.g. Arizona Spelling Bee, Academic Bowl), which allows the Station to realize two new revenue streams by renting out Studio A to clients or partnering with other community service organizations to conduct "town hall"-type events, which are occurring at an increasing rate.

Management is well aware of the challenging current economic environment and funding demands and continues to work diligently and innovatively to provide quality public media and educational services to the Arizona community.

This financial narrative is designed to provide a general overview of the Station's finances and to show accountability for the contributions received by the Station. If there are any questions about this report or a need for additional financial information, contact the Station at:

KAET/Eight, Arizona PBS
555 North Central Avenue, Suite 500
Phoenix, Arizona 85004-1252

KAET-TV
(A Department of Arizona State University)
STATEMENTS OF NET POSITION
JUNE 30, 2016 AND 2015

	2016	2015
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 1,127,151	$ 1,301,138
Grants Receivable	4,760,152	3,269,907
Estate Receivable	140	150
Other Receivables	195,898	142,093
Total Current Assets	6,083,341	4,713,288
INVESTMENTS	103,053	110,097
SPLIT INTEREST AGREEMENTS	372,687	400,359
CAPITAL ASSETS, NET	2,712,462	2,909,205
Total Assets	$ 9,271,543	$ 8,132,949
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts Payable	$ 667,772	$ 80,172
Current Maturities of Note Payable	643,573	621,209
Unearned Revenue	3,603,834	3,240,697
Total Current Liabilities	4,915,179	3,942,078
LONG-TERM LIABILITIES		
Note Payable, Less Current Maturities	-	643,573
Present Value of Annuity Payments	229,444	237,550
Total Long-Term Liabilities	229,444	881,123
Total Liabilities	5,144,623	4,823,201
NET POSITION		
Net Investment in Capital Assets	2,068,889	1,644,423
Restricted	103,053	110,097
Unrestricted	1,954,978	1,555,228
Total Net Position	4,126,920	3,309,748
Total Liabilities and Net Position	$ 9,271,543	$ 8,132,949

See accompanying Notes to Financial Statements

KAET-TV
(A Department of Arizona State University)
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
OPERATING REVENUES		
Grants and Contracts	$ 2,185,746	$ 755,266
Program Underwriting	1,282,867	1,399,680
Total Operating Revenues	3,468,613	2,154,946
OPERATING EXPENSES		
Programmatic Expenditures	8,675,422	6,671,996
Management and General	4,025,357	3,886,672
Fund-Raising and Membership Development	2,462,031	3,268,958
Total Operating Expenses	15,162,810	13,827,626
OPERATING LOSS	(11,694,197)	(11,672,680)
NON-OPERATING REVENUES (EXPENSES)		
Subscription and Membership Income	6,739,144	6,576,724
Indirect Administrative Support from the University	2,095,776	2,254,920
Community Service Grants from the Corporation for Public Broadcasting	1,919,101	1,769,035
General Appropriations from the University	820,072	815,656
Other Gifts and Non-Operating Revenue	887,501	1,227,514
Investment Income	2,405	975
In-Kind Contributions	54,414	40,531
Unrealized Investment Gain (Loss)	(7,044)	(1,221)
Total Non-Operating Revenues	12,511,369	12,684,134
CHANGE IN NET POSITION	817,172	1,011,454
Net Position - Beginning of Year	3,309,748	2,298,294
NET POSITION - END OF YEAR	$ 4,126,920	$ 3,309,748

See accompanying Notes to Financial Statements

KAET-TV
(A Department of Arizona State University)
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Grants and Contract Receipts	$ 2,287,710	$ 2,009,655
Payments to Employees and Others	(11,595,271)	(10,867,025)
Net Cash Used by Operating Activities	(9,307,561)	(8,857,370)
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES		
Subscription and Membership Income	6,739,144	6,576,724
Corporation for Public Broadcasting Grants	1,919,101	1,769,035
General Appropriations from the University	820,072	815,656
Other Gifts and Non-Operating Revenues	887,501	1,227,514
Net Cash Provided by Non-Capital and Related Financing Activities	10,365,818	10,388,929
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Purchases of Capital Assets	(613,440)	-
Payments on Note Payable	(621,209)	(599,623)
Net Cash Used by Capital Financing Activities	(1,234,649)	(599,623)
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES		
Investment Income	2,405	975
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(173,987)	932,911
Cash and Cash Equivalents - Beginning of Year	1,301,138	368,227
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 1,127,151	$ 1,301,138

See accompanying Notes to Financial Statements

KAET-TV
(A Department of Arizona State University)
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
RECONCILIATION OF LOSS FROM OPERATIONS TO NET CASH USED BY OPERATING ACTIVITIES:		
Loss from Operations	$ (11,694,197)	$ (11,672,680)
Adjustment to Reconcile Loss from Operations to Net Cash Used by Operating Activities:		
Depreciation	810,183	761,193
Donated Facilities and Administrative Support from the University	2,095,776	2,254,920
Change in Split Interest Agreements	27,672	7,400
In-Kind Contributions	54,414	40,531
Changes in Assets and Liabilities:		
Grants Receivable	(1,490,245)	(3,218,384)
Estate Receivable	10	(150)
Other Receivables	(53,805)	(3,205)
Accounts Payable	587,600	(107,304)
Unearned Revenue	363,137	3,076,448
Present Value of Annuity Payments	(8,106)	3,861
Net Cash Used by Operating Activities	$ (9,307,561)	$ (8,857,370)
SUPPLEMENTAL DISCLOSURES OF NON-CASH ITEMS		
Unrealized Investment Gain (Loss)	$ (7,044)	$ (1,221)
Cash Paid for Interest	$ 45,532	$ 67,119

See accompanying Notes to Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Station Operations

KAET-TV (the Station) is a department of and is operated by Arizona State University (the University) under a license granted by the Federal Communication Commission to the Arizona Board of Regents. The University provides facilities and other financial support to the Station. The University also acts as a collection and disbursement agent on behalf of the Station.

The financial statements of the Station include the financial activities of Arizona School Services through Educational Technology (ASSET). ASSET functions as a sub-unit of the Station. The Station and the University serve as fiscal agents for ASSET.

These financial statements present only a selected portion of the telecommunication activities of the University. As such they are not intended to and do not present either the financial position, results of operations, or changes in net position of the University as a whole.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units and the Financial Reporting Guidelines published by the Corporation for Public Broadcasting (CPB), unless those pronouncements conflict with the Government Accounting Standards Board (GASB) pronouncements. The GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

The 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 the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Contributions are recognized as revenue when made.

Operating Revenues and Expenses

The Station distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from exchange or exchange-like transactions in connection with the Station’s principal ongoing operations. Other revenues such as University appropriations and gifts, are not considered generated from operations and are reported as non-operating revenues and expenses.

Revenue Recognition

Federal grants, contracts and appropriations, and non-governmental grants and contracts are accounted for as exchange transactions and are recorded as operating revenue when earned. Advances in excess of costs incurred under grants and contracts are deferred and recognized as revenue when the related expense is incurred. Revenue related to program underwriting is recognized as unrestricted operating revenue in the period the agreement is executed.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make a number of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Such estimates and assumptions affect the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, the Station evaluates its estimates and assumptions based upon historical experience and various other factors and circumstances. Management believes that its estimates and assumptions are reasonable in the circumstances; however, actual results may differ from these estimates under different future conditions.

Statutory and Board of Regents' Policies

Arizona Revised Statutes require that deposits of the University not covered by federal deposit insurance, be secured through participation in State of Arizona Collateral Pool administered by the State Treasurer's office which holds pledged collateral of at least 102% of uninsured deposits in eligible depositories. Further policy regarding deposits is provided by the Arizona Board of Regents (ABOR).

The Statutes do not specifically address investment policy of the universities, rather ABOR policy governs in this area. ABOR policy requires that each university arrange for the safekeeping of securities by a bank or other financial institutions approved by ABOR. The ABOR and University Investment policies applicable to University investments are consistent with the scope of the Arizona State Treasurer's authorizing statutes and investment policy. Investment of capital project funds is also governed by the financing indenture agreements.

ABOR policy addresses requirements for concentration of credit risk and interest rate risk, but neither ABOR policy nor the Statutes include any specific requirements on foreign currency risk for investments of the universities.

The State of Arizona Board of Investment provides oversight for the State of Arizona Treasurer's pools. The fair value of a participant's portion in the pool approximates the value of that participant's pool shares and the participant's shares are not identified with specific investments.

Cash and Cash Equivalents

The Station considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. The University holds excess cash collected over cash disbursed for the station on demand and, accordingly, is considered cash and cash equivalents for purposes of reporting cash flows. Cash and cash equivalents on deposit (deficit) with the University totaled ($772,382) and $128,140 at June 30, 2016 and 2015, respectively.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents (Continued)

The Arizona State University Foundation (the ASU Foundation) collects and holds cash for the Station. These amounts are due on demand and, accordingly, are considered cash and cash equivalents for purposes of reporting cash flows. Cash and cash equivalents held by the ASU Foundation totaled $1,899,533 and $1,172,998 at June 30, 2016 and 2015, respectively.

Investments

Investments for the Station are held by the ASU Foundation as endowments in a pooled investment fund consisting of approximately 75% equity and 25% debt securities. Amounts held by the ASU Foundation are recorded at fair value and totaled $103,053 and $110,097 at June 30, 2016 and 2015, respectively, and are a restricted component of net position.

Unearned Revenue

Operating funds restricted by the grantor or other outside party for particular operating purposes are deemed to be earned and reported as revenues when the Station has incurred expenditures in compliance with the specific restrictions. Unearned revenue also includes amounts received for underwriting of which acknowledgment of the underwriter on air has not been completed. Such amounts received but not yet earned are reported as unearned revenue.

Subscription and Membership Income

Subscription and membership income is recognized as income when it is received.

Capital Assets

Purchased capital assets are initially recorded at cost and donated capital assets are recorded at fair value on the date of donation. Depreciation is calculated using the straight-line method over the assets' estimated useful lives. Capital assets of furniture, vehicles and equipment are defined as assets with an initial, individual cost of more than $5,000 and estimated useful lives ranging from 5 to 15 years. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

In-Kind Contributions and Indirect Administrative Support

In-kind contributions and indirect administrative support from the University are recorded at estimated fair values based upon methodology developed by the Corporation for Public Broadcasting as revenue and expense in the accompanying statements of revenues, expenses, and changes in net position. Administrative support from the University consists of allocated institutional and physical plant expense incurred by the University in support of the Station.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pledges and Estates

Legally enforceable pledges and estates are recorded as receivables, net of an allowance for uncollectible pledges and estates based on past collection experience. Unless designated for use in future periods, unrestricted pledges and estates are recorded as revenue in the statements of revenues, expenses and changes in net position when made.

Receivables

Receivables are stated at the amount management expects to collect. Management provides for probable uncollectible accounts through a charge to operations and an increase to a valuation allowance account based on its assessment of the current status of individual balances. Balances that are still outstanding after management has used reasonable collection efforts are written off through a decrease to the valuation allowance account and a reduction to the receivables. Management considers receivables at June 30, 2016 and 2015, to be fully collectible and, accordingly, an allowance for doubtful accounts is not deemed necessary.

Program Rights

Program rights purchased by the Station are expensed when purchased.

Expenses

When an expense is incurred that can be paid from either restricted or unrestricted resources, KAET's follows the University's policy which is to allow the department incurring the expense to determine the appropriate funding source. Factors used by departments to determine which resources to use include relative priorities of the department in accordance with the University's strategic initiatives, externally imposed matching requirements of certain restricted funds, and any pertinent lapsing provisions of the available restricted or unrestricted funding resources. Major capital purchases are many times split funded from multiple restricted and unrestricted funding sources.

Income Taxes

The University has received approval for tax-exempt status from the Internal Revenue Service and is also exempt from state income taxes. As a department of the University, the Station is not subject to corporate income taxes.

Economic Dependence

The Station is dependent upon funding from the Corporation for Public Broadcasting, the University, underwriters, and contributors.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentrations of Credit Risk

Cash balances are deposited with the University and ASU Foundation. Some balances are pooled with other ASU Foundation funds and commonly invested. Financial instruments that potentially subject the Station to concentrations of credit risk consist of cash deposits in bank and other financial institutions held by the University and ASU Foundation on behalf of the Station. Deposits in excess of the Federal Deposit Insurance Corporation (FDIC) insurance coverage limit of $250,000 and the Securities Investors Protection Corporation (SIPC) of $100,000 are exposed to loss in the event of nonperformance by the institution. At June 30, 2016 and 2015, and at times during the years then ended, those cash deposits were in excess of FDIC and SIPC insurance coverage. The University's cash on deposit in excess of insurance coverage is secured through participation in the State of Arizona Collateral Pool.

NOTE 2 DEPOSITS AND INVESTMENTS

At June 30, 2016 and 2015, the Station's deposits totaling $1,127,151 and $1,301,138, respectively, were held by both the University and ASU Foundation. At June 30, 2016 and 2015, the Station's investments totaling $103,053 and $110,097, respectively, were pooled with ASU Foundation investments. The ASU Foundation invests in U.S. Treasury, U.S. Agencies, commercial paper, corporate bonds, and equities. A summary of the University's risk policies for deposits and investments follows:

Interest Rate Risk

ABOR and University policies do not limit the overall maturity of the investments held by the operating fund; however, the operating fund investment policy includes guidelines addressing diversification and liquidity. The capital projects funds portfolio is not limited as to the overall maturity of its investments, with the funds invested per the financing indentures to coincide with capital spending needs and debt service requirements, which are typically less than three years, with the additional limitation that certificates of deposit and commercial paper have maximum maturities of 360 days and 270 days, respectively. The University's weighted average maturity in years ranged from one month to 3.5 years.

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

Credit Risk

With regard to credit risk, ABOR policy requires that negotiable certificates of deposit, corporate bonds, debentures and notes, bankers acceptances and State of Arizona bonds carry a minimum BBB or better rating from Standard and Poor's Rating Service or Baa or better rating from Moody's Investors Service; and that commercial paper be rated by at least two nationally recognized statistical rating organizations (NRSROs) and must be of the two highest rating categories for short-term obligations of at least two of the NRSROs. Capital projects and bond debt service funds are invested by the bond trustee in accordance with the applicable financing indenture, generally limited to United States Treasury securities and other Federal agency securities, certificates of deposit (minimum rating of P-1/A-1), commercial paper (minimum rating of P-1/A-1+), and money market funds rated AAAm or better invested in short-term debt securities.

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of bank failure, the Station's deposits may not be returned to it. University policy for its operating funds requires collateralization for all certificates of deposit and repurchase agreements. Beyond this requirement and those established by Statute or the Board, the University does not have a policy that specifically addresses custodial credit risk. As of June 30, 2016, $1,899,533 of the Station's bank balances with the ASU Foundation was exposed to custodial credit risk because the amounts were not insured or collateralized. As of June 30, 2015, $1,172,998 of the Station's bank balances with the ASU Foundation was exposed to custodial credit risk because the amounts were not insured or collateralized.

Custodial Credit Risk – Investments

For an investment, this is the risk that in the event of failure of the counterparty, 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. University policy for its operating funds requires collateralization for all certificates of deposit and repurchase agreements. Beyond this requirement and those established by Statute or the Board, the University does not have a policy that specifically addresses custodial credit risk. The Station's investments are pooled with the ASU Foundation's investments. As of June 30, 2016 and 2015, $103,053 and $110,097, respectively, of the Station's investments are exposed to custodial credit risk in that separate pertinent identifying information has not been obtained from the ASU Foundation.

Foreign Currency Risk

Operating funds may not be invested in foreign-denominated securities.

NOTE 3 CAPITAL ASSETS

Capital assets consist of the following:

Year ended June 30, 2016:

	Beginning Balance	Additions	Retirements	Ending Balance
Transmission Antenna and Tower	$ 3,274,391	$ -	$ -	$ 3,274,391
Studio and Other Broadcast Equipment and Furniture and Fixtures	11,466,991	613,440	-	12,080,431
Building Improvements	1,012,778	-	-	1,012,778
Total	15,754,160	613,440	-	16,367,600
Less Accumulated Depreciation:				
Equipment	(11,835,733)	(807,496)	-	(12,643,229)
Building Improvements	(1,009,222)	(2,687)	-	(1,011,909)
Capital Assets, Net	$ 2,909,205	$ (196,743)	$ -	$ 2,712,462

Year ended June 30, 2015:

	Beginning Balance	Additions	Retirements	Ending Balance
Transmission Antenna and Tower	$ 3,564,370	$ -	$ (289,979)	$ 3,274,391
Studio and Other Broadcast Equipment and Furniture and Fixtures	12,432,598	-	(965,607)	11,466,991
Building Improvements	1,012,778	-	-	1,012,778
Total	17,009,746	-	(1,255,586)	15,754,160
Less Accumulated Depreciation:				
Equipment	(12,332,813)	(758,506)	1,255,586	(11,835,733)
Building Improvements	(1,006,535)	(2,687)	-	(1,009,222)
Capital Assets, Net	$ 3,670,398	$ (761,193)	$ -	$ 2,909,205

Depreciation expense was $810,183 and $761,193 for the years ended June 30, 2016 and 2015, respectively.

NOTE 4 LONG-TERM DEBT

During fiscal year 2010, the University loaned KAET $4,644,785 to partially cover the cost of equipment needed for KAET's move to the Downtown Phoenix Campus.

The repayment terms are as follows: annual payments of $666,742, 8 year term; 3.6% interest rate, first payment due June 30, 2010 and every June 30, thereafter; principal and interest payments for all years; no penalty for early, full or partial repayment.

The note payable activity for the year ended June 30, 2016 is as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Note Payable	$ 1,264,782	$ -	$ (621,209)	$ 643,573

The note payable activity for the year ended June 30, 2015 is as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Note Payable	$ 1,864,405	$ -	$ (599,623)	$ 1,264,782

The aggregate principal and interest payments due on long-term debt are as follows:

	Principal	Interest	Total
2017	$ 643,573	$ 23,169	$ 666,742
Total	$ 643,573	$ 23,169	$ 666,742

NOTE 5 OPERATING LEASE

The Station subleases transmission facilities for a monthly rental charge subject to increases by positive percentage increases of the National All Items, All Urban Consumer Price Index calculated by the United States Government Bureau of Labor Statistics. The operating lease was renewed in fiscal 2012 for a term of five years and expires on June 30, 2017.

Rental expense totaled $76,267 and $106,243 for the years ended June 30, 2016 and 2015, respectively. In the normal course of business, operating leases are generally renewed or replaced by other leases.

NOTE 6 SPLIT INTEREST AGREEMENTS

The Station is the beneficiary of seven charitable remainder trusts directed to the ASU Foundation. The charitable remainder trusts provide for the payment of distributions to the grantor or other designated beneficiaries over the trust's term (usually the designated beneficiary's lifetime). At the end of the trust's term, the remaining assets are available for the Station's use. The portion of the trust attributable to the present value of the future benefits to be received by the Station is recorded as a contribution in the period the trust is established. Investments held in the charitable remainder trusts are reported at fair value. On an annual basis, the Station revalues the liability to make distributions to the designated beneficiaries based on actuarial assumptions. Adjustments to reflect the valuation of the present value of the estimated annuity payments and changes in actuarial assumptions are recognized in the statements of revenues, expenses and changes in net position as other gifts and non-operating revenue. The present value of the estimated annuity payments is calculated using discount rates of 1.8% and 2.0% as of June 30, 2016 and 2015, respectively.

NOTE 7 TRANSACTIONS WITH AFFILIATED ENTITIES

The Station received indirect support from the University of $2,095,776 in 2016 and $2,254,920 in 2015 based upon the methodology developed by the Corporation for Public Broadcasting. The Station also received state appropriations for operating, personal services and employee-related reimbursements from the University of $820,072 and $815,656 in 2016 and 2015, respectively, all of which are reported as an increase in unrestricted net position. The Station operates out of a building owned by ASU and does not pay rent.

NOTE 8 COMMITMENTS

In 1992, the Station entered into a joint use agreement with Maricopa Community Colleges to operate a classical FM radio station, KBAQ, which commenced operations in 1993. For the years ended June 30, 2016 and 2015, KBAQ recognized $79,300 and $82,429, respectively, in revenue, which is recorded as grants and contracts. In addition, the Station contributed $362,807 in 2016 and $248,940 in 2015 to fund KBAQ operations for the years then ended. These funds are recorded in programmatic expenditures.

NOTE 9 RETIREMENT PLAN

Full-time, permanent employees of the University are, in general, required to be members of an authorized retirement program. The programs are funded through payroll deductions from covered employees' gross earnings and amounts contributed by the University. In general, employees' rights vest after five years of service under all plans. University contributions of, and interest forfeited by, employees who leave employment before five years of service are used to reduce the University's future period contribution requirements.

NOTE 9 RETIREMENT PLAN (CONTINUED)

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

The actuarially determined contributions rate as required by statute for both employees and employers was 11.47% of compensation for fiscal year 2016, comprised of 11.35% for retirement and 0.12% for long-term disability. The actuarially determined contributions rates, as required by statute for both employees and employers was 11.60% of compensation for fiscal year 2015, comprised of 11.48% for retirement and 0.12% for long-term disability. The Station's retirement plan expense for this plan was $221,595 in 2016, $248,163 in 2015, and $258,906 in 2014.

The University also offers pension benefits for eligible faculty, academic professionals, certain university staff, and administrative staff via a defined contribution plan. The benefits of the defined contribution plan depend solely on amounts contributed to the plan plus investment earnings. State statute requires that both the employee and the University contribute an amount equal to 7% of the employee's base salary. The Station's retirement plan expense for this plan was $60,990 in 2016, $68,128 in 2015 and $68,911 in 2014.

NOTE 10 GOVERNMENT ACCOUNTING STANDARDS BOARD STATEMENT NO. 68

Compliant with the requirements of Government Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*, the Arizona State University (the University) has implemented the standard for the fiscal year ended June 30, 2015. The AZ PBS – KAET (the Department), as part of the primary government of the Arizona State University, is a contributing employer to a cost-sharing multiple employer defined benefit pension plan administered by the Arizona State Retirement System (ASRS). Overall, total pension liability exceeds Plan net position resulting in a net pension liability. The University has determined the University's share of the net pension liability to be a liability of the University as a whole, rather than any agency or department of the University and will not be reported in the department or agency level financial statements of the University. All required disclosures will be presented in the Comprehensive Annual Financial Report (CAFR) of the Arizona State University. Information concerning the net pension liability, pension expense, and pension-related deferred inflows and outflows of resources of the primary government will be contained in the CAFR and will be available, when issued, from the Office of the Auditor General, 2910 North 44th Street, Suite 410, Phoenix, AZ 85018.

NOTE 11 CONTINGENCY

The Station had a positive change in net position for the years ended June 30, 2016 and 2015. By statute, the Station is not allowed to execute debt agreements with outside third parties. In the event the Station has a shortfall covering its operating expenses, it is anticipated that the University would work with the Station to develop a repayment plan to cover the deficit.

NOTE 12 SUBSEQUENT EVENTS

Management evaluated subsequent events through February 12, 2017, the date the financial statements were available to be issued. Events or transactions occurring after June 30, 2016, but prior to February 12, 2017, that provided additional evidence about conditions that existed at June 30, 2016, have been recognized in the financial statements for the year ended June 30, 2016. Events or transactions that provided evidence about conditions that did not exist at June 30, 2016, but arose before the financial statements were available to be issued have not been recognized in the financial statements for the year ended June 30, 2016.

KAET-TV
(A Department of Arizona State University)
SCHEDULE OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2016
(with June 30, 2015 Comparative Totals)
(SEE INDEPENDENT AUDITORS' REPORT)

	Program Services				Support Services			
	Local Programming and Production	Broadcasting	Program Information and Promotion	Total Program Services	Management and General	Fund-Raising and Membership Development	2016 Total	2015 Total
Salaries, Payroll Taxes and Employee Benefits	$ 2,466,416	$ 881,429	$ 458,631	$ 3,806,476	$ 657,437	$ 1,220,430	$ 5,684,343	$ 5,388,410
Administrative Service Charge	25,000	-	-	25,000	-	-	25,000	50,779
Building - Interest	-	-	-	-	45,532	-	45,532	67,119
Conferences and Meetings	36,070	1,360	-	37,430	1,586	2,330	41,346	19,144
Depreciation	-	-	-	-	810,183	-	810,183	761,193
Indirect Administrative Support	-	-	-	-	2,095,776	-	2,095,776	2,254,920
Indirect Costs	4,336	-	-	4,336	-	-	4,336	3,671
Non-Capital Equipment	72,744	131,813	1,243	205,800	1,564	58	207,422	104,234
Other Operations	237,369	52,400	23,588	313,357	188,031	77,584	578,972	189,952
Postage	603	17	59,858	60,478	542	139,959	200,979	168,163
Professional Fees and Services	497,421	427,450	428,598	1,353,469	138,850	440,073	1,932,392	1,610,022
Program Licenses and Dues	2,485,670	220	-	2,485,890	60,585	465	2,546,940	2,332,724
Rentals	14,571	59,295	-	73,866	2,288	113	76,267	106,243
Supplies	109,950	70,752	3,893	184,595	8,697	555,772	749,064	690,385
Telephone	35,065	11,915	4,750	51,730	3,718	12,266	67,714	39,691
Travel	69,673	3,322	-	72,995	10,568	12,981	96,544	40,976
Total Functional Expenses	$ 6,054,888	$ 1,639,973	$ 980,561	$ 8,675,422	$ 4,025,357	$ 2,462,031	$ 15,162,810	$ 13,827,626