

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

MONTANA PBS
A PUBLIC TELEVISION ENTITY
OPERATED BY THE MONTANA UNIVERSITY SYSTEM

June 30, 2011 and 2010

MONTANA PBS
A PUBLIC TELEVISION ENTITY
OPERATED BY THE MONTANA UNIVERSITY SYSTEM
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MONTANA PBS
A PUBLIC TELECOMMUNICATIONS ENTITY
OPERATED BY THE MONTANA UNIVERSITY SYSTEM
Management's Discussion and Analysis
June 30, 2011 and 2010

INTRODUCTION

The management's discussion and analysis (MD&A) introduces the basic financial statements and provides an overview of Montana PBS's financial position and activities for the fiscal years ended June 30, 2011 and 2010. This overview is required by Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*, as amended by GASB Statements No. 37 and 38. Since the stations are component units of the Montana University System (a State agency), they are required to report under these GASB guidelines.

The MD&A emphasizes the current year and identifies any economic or financial factors which could have a significant impact on future operations. This discourse has been prepared by management and should be read in conjunction with the financial statements and notes following this section.

Montana PBS (collectively referred to as the "Station") is a partnership of two non-commercial television stations licensed to the Montana University System which include KUSM-TV Bozeman, (operated by Montana State University), and KUFM-TV Missoula (operated by The University of Montana). The Station provides public television services through the acquisition, production and delivery of high-quality television to residents of Montana. A related fund raising entity, Friends of Montana PBS, Inc. ("Friends"), is a not-for-profit Montana corporation that advises, provides financial support, promotes positive community relations and provides certain administrative services to Montana PBS. Readers may also wish to refer to the separately issued financial statements of Friends for further information.

USING THE FINANCIAL STATEMENTS

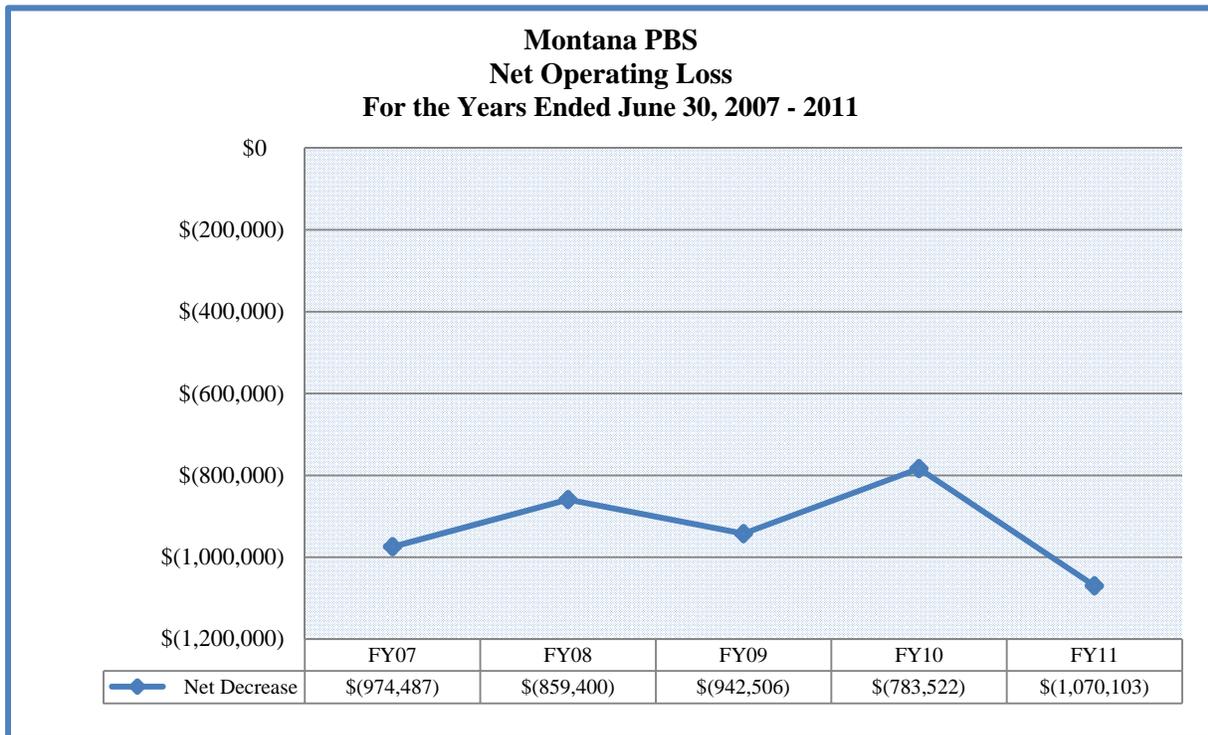
Pursuant to GASB Statement No. 35, the basic financial statements consist of the Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; the Statement of Cash Flows; and the notes to the financial statements. In addition to the financial statements, the MD&A is included as required supplementary information.

The financial statements are prepared using the accrual basis of accounting, wherein revenues are recognized when services are provided and expenses are recognized when goods or services are received, regardless of when cash is exchanged.

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FINANCIAL HIGHLIGHTS AND ANALYSIS

During fiscal year 2011, the Station experienced a decrease in its overall financial position. This decrease was largely due to operating expenses exceeding revenues. Operating expenses increased by approximately 2.5% primarily due to costs associated with broadcasting. Specifically legal fees associated with obtaining a new license in Kalispell and minor tools and equipment relating to the Master Control and the Great Falls DTV projects. Operating revenues remained fairly stable as compared to the prior year.



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FINANCIAL HIGHLIGHTS AND ANALYSIS (continued)

Statement of Net Assets

The Statement of Net Assets reflects the financial position of Montana PBS as of the end of the fiscal year. The difference between total assets and total liabilities (net assets) is one indicator of whether the overall financial condition of an entity has improved or worsened during the year. Assets and liabilities are generally measured using current values except for capital assets, which are stated at historical cost less an allowance for depreciation.

A summary of the Statements of Net Assets is as follows at June 30:

	2011	2010	2009
ASSETS			
Total current assets	\$ 554,091	\$ 727,157	\$ 778,305
Capital assets, net	3,826,810	4,033,042	4,147,746
Total other non-current assets	24,659	13,868	13,839
Total Assets	<u>\$ 4,405,560</u>	<u>\$ 4,774,067</u>	<u>\$ 4,939,890</u>
LIABILITIES			
Total current liabilities	\$ 390,691	\$ 370,918	\$ 472,471
Total non-current liabilities	522,369	422,626	300,898
Total Liabilities	<u>\$ 913,060</u>	<u>\$ 793,544</u>	<u>\$ 773,369</u>
NET ASSETS			
Invested in capital assets, net of related debt	3,816,548	4,020,212	4,101,929
Restricted	(324,048)	(40,240)	64,098
Unrestricted	-	551	494
Total Net Assets	<u>3,492,500</u>	<u>3,980,523</u>	<u>4,166,521</u>
Total Liabilities and Net Assets	<u>\$ 4,405,560</u>	<u>\$ 4,774,067</u>	<u>\$ 4,939,890</u>

Events or developments which occurred during 2011 include:

- Cash and cash equivalents decreased \$173,066 due to a combination of a loss on operating activities and the purchase of capital assets as discussed in the Statement of Cash Flows.
- The net decrease in capital assets of \$206,232 is due primarily to current year depreciation expense and equipment disposals exceeding current year acquisitions. Capital assets included the addition of \$396,107 in broadcasting and studio equipment including a video HD server system for the Bozeman master control facility. Also added in 2011 was \$198,454 in transmission, antenna and tower equipment relating primarily to the Missoula transmission facility. These additions were offset by an increase in accumulated depreciation of \$678,649.
- An increase in non-current liabilities of \$99,743 is attributed primarily by the recording of other post employment benefits (OPEB) totaling \$103,103 as required by GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The net OPEB liability reflects the implicit rate subsidy associated with post employment benefits other than pensions.

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Management's Discussion and Analysis
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FINANCIAL HIGHLIGHTS AND ANALYSIS (continued)

Events or developments which occurred during 2010 include:

The decrease in net capital assets of \$114,704 was due to current year depreciation expense and equipment disposals exceeding current year acquisitions. Equipment for the Great Falls transmission facility account for the majority of the current year acquisitions which totaled \$701,671.

Current liabilities decreased by \$101,553, which was largely due to a \$67,350 decrease in amounts due to Montana State University (MSU) and a decrease in capital lease obligations. Amounts due to MSU decreased because the deficit cash balances on the cost reimbursement grants funds were lower than the prior year.

An increase in non-current liabilities of \$121,728 is attributed primarily by the recording of other post employment benefits (OPEB) totaling \$100,005 as required by GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The net OPEB liability reflects the implicit rate subsidy associated with post employment benefits other than pensions.

Capital assets, net of related debt increased \$81,717 due to a decrease in net capital assets and a net decrease in related debt of \$32,987. The decrease in restricted net assets is largely due to the 2010 increase in the OPEB liability.

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets present the results of the Station's operational activities. In accordance with GASB, revenues and expenses are classified as either operating or non-operating. Operating revenues and expenses are transactions related directly to fulfilling the entity's purpose (i.e. providing public television services). Non-operating revenues and expenses are transactions that are not related to the entity's basic operations.

A summary of the Statements of Revenues, Expenses and Changes in Net Assets is as follows at June 30:

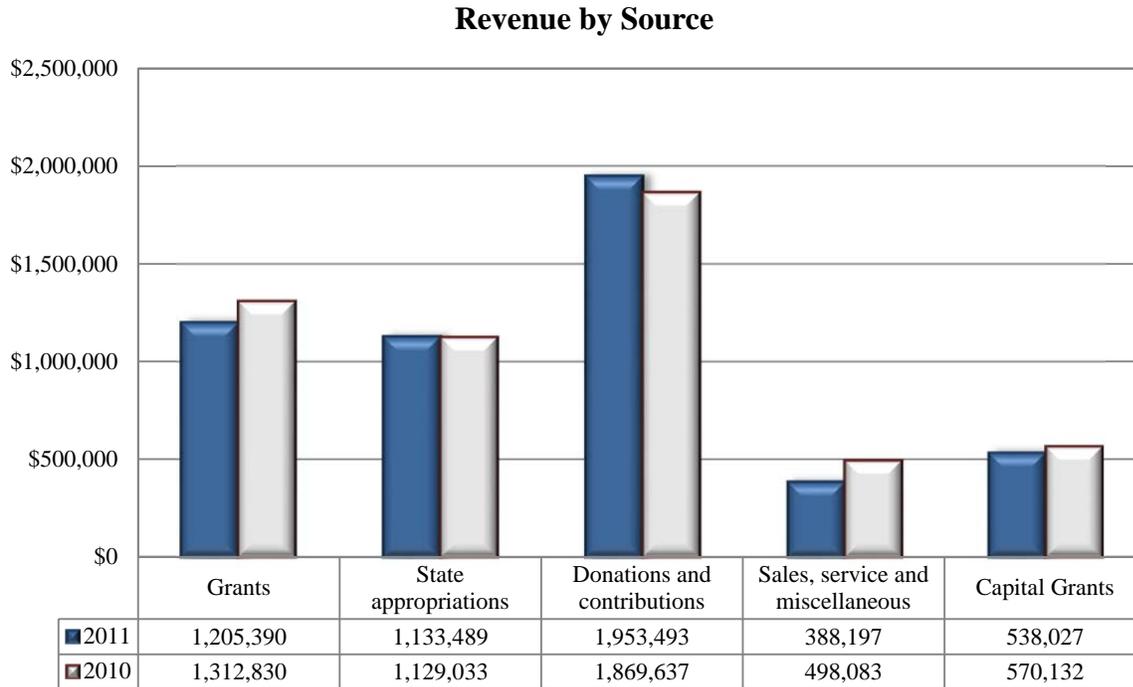
	2011	2010	2009
Operating revenue	\$ 4,635,465	\$ 4,782,191	\$ 4,472,365
Operating expenses	5,705,568	5,565,713	5,414,871
Operating loss	(1,070,103)	(783,522)	(942,506)
Non-operating revenues	583,131	597,525	2,054,293
Other Expense – Interest Expense	(1,051)	-	(5,483)
Net (decrease) increase in net assets	(488,023)	(185,998)	1,106,304
Net assets-beginning of year	3,980,523	4,166,521	3,060,217
Net assets-end of year	<u>\$ 3,492,500</u>	<u>\$ 3,980,523</u>	<u>\$ 4,166,521</u>

**MONTANA PBS
A PUBLIC TELECOMMUNICATIONS ENTITY
OPERATED BY THE MONTANA UNIVERSITY SYSTEM**

**Management's Discussion and Analysis
June 30, 2011 and 2010**

FINANCIAL HIGHLIGHTS AND ANALYSIS (continued)

The following chart provides a graphical representation of revenues by source for fiscal years 2011 and 2010:



Events or developments which occurred during 2011 include:

- Total operating expenses increased by \$139,855 due primarily to a \$240,739 increase in broadcasting expenses. This increase was largely due to legal fees associated with obtaining a new license in Kalispell and an increase in minor tools and equipment relating to the Master Control project in Bozeman and the Great Falls DTV project. Less significant fluctuations in other operating categories accounted for the remainder of the change.
- For additional analysis, the notes to the financial statements also present operating expenses in functional groups. Functional expenses include salaries and benefits, services and supplies, repairs and maintenance, rent and other occupancy costs as well as depreciation and amortization.

Events or developments which occurred during 2010 include:

- Total operating expenses increased by \$150,842 due to the following increases (decreases):
 - \$151,473 increase in broadcasting expenses
 - (\$57,267) decrease in programming and production expenses
 - \$24,549 increase in program information and promotion expense
 - (\$22,049) decrease in management and general expenses
 - \$56,393 increase in fundraising and membership development expenses

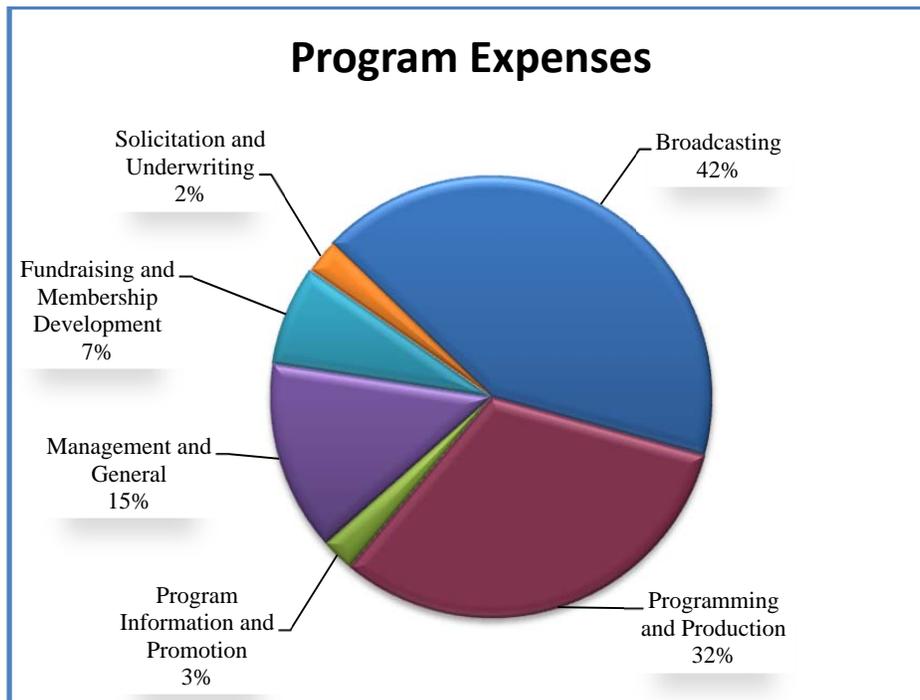
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FINANCIAL HIGHLIGHTS AND ANALYSIS (continued)

To help readers better understand the increases and decreases in each of the above categories, operating expenses are also categorized into functional groups. Functional expenses include salaries and benefits, services and supplies, repairs and maintenance, rent and other occupancy costs as well as depreciation and amortization.

- Salaries and benefits expense increased \$215,482 due to a 9% increase in employer health insurance costs. The remaining offsetting variance of (\$56,499) is due to various immaterial increases and (decreases) in other operating expenses.

The following chart provides a graphical representation of each program expense as a percentage of total operating expenses for fiscal year 2011:



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FINANCIAL HIGHLIGHTS AND ANALYSIS (continued)

Statement of Cash Flows

The Statement of Cash Flows provides additional information about the Station's financial results by reporting the major sources and uses of cash. This statement aids in assessing the Stations' ability to a) meet obligations and commitments as they become due, b) generate future cash flows, and c) recognize the need for external financing.

A summary of the Statements of Cash Flows is as follows at June 30:

	2011	2010	2009
CASH PROVIDED BY (USED IN)			
Operating activities	\$ 19,325	\$ 99,677	\$ (314,515)
Non-capital and related financing activities	(12,589)	-	30,805
Capital and related financing activities	(85,705)	(111,543)	(337,341)
Investing activities	2,424	2,571	3,772
Net decrease in cash and cash equivalents	(76,545)	(9,295)	(617,279)
Cash and cash equivalents – beginning of year	583,346	592,641	1,209,920
Cash and cash equivalents – end of year	<u>\$ 506,801</u>	<u>\$ 583,346</u>	<u>\$ 592,641</u>

Events or developments which occurred during 2011 include:

- Cash provided by operating activities amounted to \$19,325 in 2011. The operating loss of \$1,070,103 was largely offset by noncash operating expenses, primarily depreciation expense of \$830,349, and the Annual Required Contribution to the OPEB liability of \$103,103.
- Non-capital and related financing activities used \$12,589 in 2011 due to purchase of a long term investment with donated funds.
- Capital and related financing activities used \$85,705 in cash. This net cash outflow was due to purchases of capital assets of \$618,118 offset by \$536,042 in capital grants received during the year.

Events or developments which occurred during 2010 include:

- Cash provided by operating activities amounted to \$99,677. This net cash inflow was due to the operating loss of \$783,523 that was largely offset by noncash operating expenses, mainly depreciation expense of \$776,206.
- Non-capital and related financing activities did not have any cash inflow or outflows during 2010. During 2009, \$30,805 was provided by noncapital and related financing activities due to amounts advanced in 2009 by Montana State University to cover expenses on grants that are billed on a cost reimbursement basis.
- Capital and related financing activities used \$111,543 in cash. This net cash outflow was due to additions to capital assets exceeding the amount of capital grants received during the year.

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ECONOMIC OUTLOOK

The Station's primary concerns moving forward include the effect of the continuing difficult economic conditions on philanthropic giving, as well as possible instability in state and federal funding. The loss of PTFP (Public Telecommunications Facilities Program) and CPB Digital funding will have a very negative effect on this Station's ability to replace and maintain capital investments, ultimately resulting in the need to fund capital depreciation at a level not previously achieved.

The Station has received a permit to build a new transmitter in Kalispell, Montana. The majority of funds for this project have already been raised, but the Station will still have to raise the remaining funds, approximately \$70,000.

The Station's investment in local programming also continues to pay off through the publicity gained for services and by showcasing the Station's mission of portraying the issues, people and independent spirit of Montana. Local programs continue to be a leading source of pledge dollars from viewers which is a remarkable accomplishment in public television.

The strength of the Station's programming, the success of past fundraising campaigns and a continued focus on expansion throughout Montana and audience memberships are important foundations to build on as the Station looks to maintain and grow the revenue needed to support its operating and capital needs. The Station is also working to build philanthropic capacity by creating a relationship with the MSU Alumni Foundation in cooperation with the UM Foundation, specifically a major giving officer dedicated to building the Stations endowment, capital campaign, and planned giving efforts. While it is not possible to predict a definitive result, management believes that the Station's financial condition will remain stable and continue to improve in subsequent years.

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Montana PBS
A Public Television Entity
Operated by the Montana University System
Bozeman, Montana

We have audited the accompanying statements of Montana PBS (Station), a Public Television Entity operated by the Montana University System as of June 30, 2011 and 2010, as shown in the table of contents. These financial statements are the responsibility of the Station's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Friends of Montana PBS, Inc. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Friends of Montana PBS, Inc. is based on the report of the other auditors. Comparative totals from the prior year audited financial statements are also presented.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note A, the financial statements of the Station are intended to present the financial position, and the changes in financial position and cash flows, where applicable, of only that portion of the Montana University System that is attributable to the transactions of the Station. They do not purport to, and do not, present fairly the financial position of the Montana University System as of June 30, 2011 and 2010, and the changes in its financial position and its cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, based on our audits and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of Montana PBS, a Public Television Entity operated by the Montana University System as of June 30, 2011 and 2010, and the respective changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and schedule of funding status for other post retirement benefits for health insurance are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise Montana PBS, a Public Television Entity's basic financial statements. The supplemental schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. These schedules have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the report of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Galusha Higgins & Galusha, PC

Missoula, Montana
January 23, 2012

MONTANA PBS
A PUBLIC TELEVISION ENTITY OPERATED BY
THE MONTANA UNIVERSITY SYSTEM
STATEMENTS OF NET ASSETS
June 30

ASSETS	<u>2011</u>	<u>2010</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 506,801	\$ 583,346
Accounts receivable	9,299	87,450
Grants receivable	-	8,026
Prepaid expenses	37,991	48,335
Total current assets	<u>554,091</u>	<u>727,157</u>
CAPITAL ASSETS, Net of accumulated depreciation - Note D	<u>3,826,810</u>	<u>4,033,042</u>
NONCURRENT ASSETS		
Prepaid expenses	10,214	13,352
Restricted investment held by trustee	14,445	516
Total noncurrent assets	<u>24,659</u>	<u>13,868</u>
	<u><u>\$ 4,405,560</u></u>	<u><u>\$ 4,774,067</u></u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 47,358	\$ 43,472
Amounts due to MSU	-	4,914
Deferred revenue	214,174	174,816
Current portion, compensated absences	126,160	144,906
Current portion, capital lease obligations	2,999	2,810
Total current liabilities	<u>390,691</u>	<u>370,918</u>
NONCURRENT LIABILITIES		
Compensated absences, net of current portion	163,802	164,405
Capital lease, net of current portion	7,263	10,020
Net OPEB obligation	351,304	248,201
Total noncurrent liabilities	<u>522,369</u>	<u>422,626</u>
Total liabilities	<u>913,060</u>	<u>793,544</u>
NET ASSETS		
Invested in capital assets, net of related debt	3,816,548	4,020,212
Unrestricted	(324,048)	(40,240)
Restricted - expendable	-	551
Total net assets	<u>3,492,500</u>	<u>3,980,523</u>
	<u><u>\$ 4,405,560</u></u>	<u><u>\$ 4,774,067</u></u>

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

FRIENDS OF MONTANA PBS, INC.
A COMPONENT UNIT OF MONTANA PBS/KUSMTV/KUFM TV
STATEMENTS OF FINANCIAL POSITION
June 30

	2011	2010
CURRENT ASSETS		
Cash and cash equivalents	\$ 76,163	\$ 67,394
Restricted cash	674,267	200,577
Restricted certificates of deposit	157,344	392,363
Restricted investment in mutual fund	52,297	-
Prepaid expense	7,851	7,151
Premium inventory	6,258	13,718
Interest receivable - restricted	62	2,692
Pledged receivables - restricted	-	3,675
	\$ 974,242	\$ 687,570
 LIABILITIES		
Accounts payable	\$ 4,074	\$ 12
 NET ASSETS		
Unrestricted	86,199	88,251
Temporarily restricted	883,969	599,307
	970,168	687,558
	\$ 974,242	\$ 687,570

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

MONTANA PBS
A PUBLIC TELEVISION ENTITY OPERATED BY
THE MONTANA UNIVERSITY SYSTEM
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
for the years ended June 30

	2011	2010
OPERATING REVENUES		
Grants from CPB	\$ 897,163	\$ 943,308
Grants from federal agencies	185,000	212,274
Grants from state agencies	-	1,000
Grants from public broadcasting entities	67,526	14,992
Nongovernmental grants and contracts	55,701	141,256
Support from the Montana University System		
Appropriations for operations	1,133,489	1,129,033
Donated and indirect	876,690	732,936
Contributions from Friends used for operations	928,107	970,941
Sales and services	85,019	117,937
Underwriting	37,557	67,347
Other contributions	107,358	140,996
Other operating revenue	261,855	310,171
Total operating revenues	4,635,465	4,782,191
OPERATING EXPENSES		
Broadcasting	2,398,655	2,157,916
Programming and production	1,813,460	1,882,780
Program information and promotion	139,633	169,907
Management and general	794,645	827,768
Fundraising and membership development	460,541	433,659
Solicitation and underwriting	98,634	93,683
Total operating expenses	5,705,568	5,565,713
OPERATING LOSS	(1,070,103)	(783,522)
NONOPERATING REVENUES		
State grants and contracts for capital projects	-	38,534
Federal grants and contracts for capital projects	451,677	293,565
Contributions from friends for capital	9,400	208,933
Other capital grants and gifts	76,950	29,099
Contributions - other	41,338	24,765
Investment income	3,766	2,628
Total nonoperating revenues	583,131	597,524
OTHER EXPENSE - INTEREST EXPENSE	(1,051)	-
CHANGE IN NET ASSETS	(488,023)	(185,998)
NET ASSETS - Beginning of year	3,980,523	4,166,521
NET ASSETS - End of year	\$ 3,492,500	\$ 3,980,523

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

FRIENDS OF MONTANA PBS, INC.
A COMPONENT UNIT OF MONTANA PBS/KUSM TV/KUFM TV
STATEMENT OF ACTIVITIES
for the year ended June 30, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u>
REVENUE AND SUPPORT			
Donations - unrestricted	\$ 652,668	\$ -	\$ 652,668
Donations - restricted	-	350,776	350,776
Membership dues	481,660	-	481,660
Interest and dividend income	248	7,724	7,972
Realized loss on investment	-	(558)	(558)
Unrealized gain on investment	-	(1,000)	(1,000)
Satisfaction of program requirements	72,280	(72,280)	-
Total support	<u>1,206,856</u>	<u>284,662</u>	<u>1,491,518</u>
EXPENSES			
Payments to affiliates:			
KUSM Television per contract	732,497	-	732,497
KUFM Television per contract	185,929	-	185,929
Equipment - major	9,400	-	9,400
Total payments to affiliates	<u>927,826</u>	<u>-</u>	<u>927,826</u>
Program services:			
Lecture series costs	2,623	-	2,623
Program guide costs	21,825	-	21,825
Program guide mail preparation	17,543	-	17,543
Program guide postage	20,901	-	20,901
Total program services	<u>62,892</u>	<u>-</u>	<u>62,892</u>
Fundraising:			
Credit card and bank fees	18,329	-	18,329
Governmental affairs	2,657	-	2,657
Pledge drive premiums and support	113,735	-	113,735
Postage and direct mail preparation	513	-	513
Promotion and promotional premiums	1,051	-	1,051
Total fundraising	<u>136,285</u>	<u>-</u>	<u>136,285</u>
Management and administrative:			
Accounting and bookkeeping services	14,442	-	14,442
Contracted services	58,211	-	58,211
Insurance	1,754	-	1,754
Met Net	802	-	802
Miscellaneous	990	-	990
Travel and conferences	5,389	-	5,389
Vounteer support	317	-	317
Total management and administration	<u>81,905</u>	<u>-</u>	<u>81,905</u>
Total expenses	<u>1,208,908</u>	<u>-</u>	<u>1,208,908</u>
INCREASE (DECREASE) IN NET ASSETS	(2,052)	284,662	282,610
Net assets at beginning of year	<u>88,251</u>	<u>599,307</u>	<u>687,558</u>
NET ASSETS AT END OF YEAR	<u>\$ 86,199</u>	<u>\$ 883,969</u>	<u>\$ 970,168</u>

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

FRIENDS OF MONTANA PBS, INC.
A COMPONENT UNIT OF MONTANA PBS/KUSM TV/KUFM TV
STATEMENT OF ACTIVITIES
for the year ended June 30, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u>
REVENUE AND SUPPORT			
Donations - unrestricted	\$ 628,544	\$ -	\$ 628,544
Donations - restricted	-	204,976	204,976
Membership dues	519,265	-	519,265
Interest and dividend income	1,216	14,906	16,122
Realized loss on investment	-	(520)	(520)
Unrealized gain on investment	-	2,606	2,606
Satisfaction of program requirements	299,164	(299,164)	-
Total support	<u>1,448,189</u>	<u>(77,196)</u>	<u>1,370,993</u>
EXPENSES			
Payments to affiliates:			
KUSM Television per contract	720,596	-	720,596
KUFM Television per contract	192,736	-	192,736
Satellite and digital link KUSM-KUFM	46,923	-	46,923
Equipment - major	208,597	-	208,597
Total payments to affiliates	<u>1,168,852</u>	<u>-</u>	<u>1,168,852</u>
Program services:			
Program guide costs	22,806	-	22,806
Program guide mail preparation	14,832	-	14,832
Program guide postage	19,122	-	19,122
Total program services	<u>56,760</u>	<u>-</u>	<u>56,760</u>
Fundraising:			
Credit card and bank fees	18,466	-	18,466
Governmental affairs	50	-	50
Pledge drive premiums and support	95,883	-	95,883
Postage and direct mail preparation	446	-	446
Printing	809	-	809
Promotion and promotional premiums	4,008	-	4,008
Total fundraising	<u>119,662</u>	<u>-</u>	<u>119,662</u>
Management and administrative:			
Accounting and bookkeeping services	4,289	-	4,289
Contracted services	92,190	-	92,190
Insurance	1,599	-	1,599
Met Net	1,024	-	1,024
Miscellaneous	1,049	-	1,049
Travel and conferences	5,620	-	5,620
Total management and administration	<u>105,771</u>	<u>-</u>	<u>105,771</u>
Total expenses	<u>1,451,045</u>	<u>-</u>	<u>1,451,045</u>
DECREASE IN NET ASSETS	(2,856)	(77,196)	(80,052)
Net assets at beginning of year	<u>91,107</u>	<u>676,503</u>	<u>767,610</u>
NET ASSETS AT END OF YEAR	<u>\$ 88,251</u>	<u>\$ 599,307</u>	<u>\$ 687,558</u>

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

MONTANA PBS
A PUBLIC TELEVISION ENTITY OPERATED BY
THE MONTANA UNIVERSITY SYSTEM
STATEMENTS OF CASH FLOWS
for the years ended June 30

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from grantors	\$ 1,472,714	\$ 1,356,857
Receipts from others	2,439,116	3,718,313
Compensation and benefits	(1,923,028)	(2,003,117)
Other operating expenses	(1,969,477)	(2,972,376)
Net cash from operating activities	19,325	99,677
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of investments	(12,589)	-
Net cash from noncapital and related financing activities	(12,589)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(618,118)	(608,475)
Cash received from capital grants and contributions	536,042	545,214
Principal and interest paid on long-term debt	(3,629)	(48,282)
Net cash from capital and related financing activities	(85,705)	(111,543)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	2,424	2,571
NET CHANGE IN CASH AND CASH EQUIVALENTS	(76,545)	(9,295)
CASH AND CASH EQUIVALENTS - Beginning of year	583,346	592,641
CASH AND CASH EQUIVALENTS - End of year	\$ 506,801	\$ 583,346
RECONCILIATION OF OPERATING LOSS TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating loss	\$ (1,070,103)	\$ (783,522)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	830,349	776,206
Loss on disposal of capital assets	-	11,679
In-kind contribution	40,432	-
(Increase) decrease in assets		
Accounts and grants receivable	83,066	37,949
Prepaid expenses	13,496	3,932
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	(1,027)	(61,163)
Compensated absences	(19,349)	13,387
Deferred grants and revenue	39,358	1,204
Change in net OPEB obligation	103,103	100,005
Net cash flows from operating activities	\$ 19,325	\$ 99,677

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

FRIENDS OF MONTANA PBS, INC.
A COMPONENT UNIT OF MONTANA PBS/KUSM TV/KUFM TV
STATEMENTS OF CASH FLOWS
for the years ended June 30

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 282,610	\$ (80,052)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Unrealized (gain) loss on investment	558	(2,606)
Realized loss on investment	-	520
(Increase) decrease in:		
Pledges receivable	3,675	17,767
Prepaid expense	(699)	(3,078)
Interest receivable	2,630	(407)
Premium inventory	7,460	3,487
Increase in accounts payable	4,062	63
	300,296	(64,306)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net proceeds of certificates of deposit, net of maturities	234,790	67,987
Proceeds from sale of mutual fund	-	29,813
Purchase of mutual fund	(52,627)	-
	182,163	97,800
NET CASH INCREASE IN CASH AND CASH EQUIVALENTS	482,459	33,494
CASH AND CASH EQUIVALENTS - Beginning of year	267,971	234,477
CASH AND CASH EQUIVALENTS - End of year	\$ 750,430	\$ 267,971
Cash and cash equivalents - unrestricted	\$ 76,163	\$ 67,394
Cash and cash equivalents - restricted	674,267	200,577
Totals	\$ 750,430	\$ 267,971

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

MONTANA PBS
A PUBLIC TELEVISION ENTITY
OPERATED BY THE MONTANA UNIVERSITY SYSTEM
NOTES TO FINANCIAL STATEMENTS

June 30, 2011 and 2010

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization. Montana PBS (the Station) is an affiliation between KUSM TV and KUFM TV. The Station is both operated by the Montana University System, which is governed by the Montana Board of Regents. KUSM TV is operated by Montana State University, Bozeman, Montana, and KUFM TV is operated by The University of Montana, Missoula, Montana. Additionally, KBGS TV, Billings, a third full power station, and KUGF TV, Great Falls, a fourth full power station, are operated centrally from the Bozeman facility. The Stations are separate operational units of the Montana University System, which include the University of Montana and Montana State University (MSU). As component units of the State of Montana, the two universities are included separately in the financial statements of the State of Montana.

The Station services Montanans by acquiring, producing, and delivering high quality television programming, production and community outreach services. These non-commercial services provide state residents access to educational, informational and entertainment programming produced nationally and locally, and extend the impact of television viewing through community outreach efforts. The Stations rely on grants, university support and public contributions.

During the year ended June 30, 2011, there were no inter-station transactions. If inter-station activity were to occur during the year, transactions between the combined entities would be eliminated from the financial statements.

The component unit described below is included in the Station's reporting entity because of the significance of the operational and financial relationship with the Stations.

Discretely Presented Component Unit. The Friends of Montana PBS, Inc. ("Friends"), a not-for-profit Montana corporation, that advises and provides financial support, positive community relations, and related administrative services to Montana PBS.

The administration of Friends is provided by a Board of Directors consisting of 8 to 26 members. One member of the Board of Directors shall be the General Manager of KUSM and another shall be the General Manager of KUFM. One member shall be the President of Montana State University and one member shall be the President of The University of Montana or a person designated annually by the respective Presidents to serve in his/her behalf.

In accordance with GASB Statement No. 39, the financial statements of Friends of Montana PBS, Inc. are being presented in this financial report as a component unit, not consolidated with the financial statements of Montana Public TV. As a result, transactions between the two entities are not eliminated. GASB Statement No. 34 requires that transactions between the two entities be recorded as external transactions. As a result, transfers of funds from Friends to Montana Public TV are recorded as an expense on the financial statements of Friends and as revenue on the financial statements for Montana Public TV (see Note I).

A copy of the audited financial statements of the component unit can be obtained by writing to Friends of Montana PBS, Inc. at P. O. Box 10715, Bozeman, MT 59719-0715.

Continued

MONTANA PBS
A PUBLIC TELEVISION ENTITY
OPERATED BY THE MONTANA UNIVERSITY SYSTEM
NOTES TO FINANCIAL STATEMENTS

June 30, 2011 and 2010

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Financial Statement Presentation. The Station's financial statements are presented in accordance with requirements of GASB Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*, GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, GASB Statement No. 37, *Basic Financial Statements--and Management's Discussion and Analysis for State and Local Governments: Omnibus--and amendment of GASB Statements No. 21 and No. 34*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. Under GASB Statements No. 34, No. 35, No. 37 and No. 38, the Station is required to present a statement of net assets classified between current and noncurrent assets and liabilities, a statement of revenues, expenses and changes in net assets, with separate presentation for operating and nonoperating revenues and expenses, and a statement of cash flows using the direct method. The statements require the classification of net assets into three components--invested in capital assets, net of related debt; restricted and unrestricted.

Basis of Accounting. For financial reporting purposes, the Station is considered a special-purpose government engaged only in business-type activities. Accordingly, the Station's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumption that affect the reported amounts of assets and liabilities and disclosure of contingent asses and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Cash and Cash Equivalents. For purposes of the combined statement of cash flows, cash balances maintained in pooled funds with other University funds are considered cash equivalents. The universities allocate cash balances to Montana PBS from their funds invested in the Short Term Investment Pool (STIP) with the Montana Board of Investments. The universities consider STIP funds to be cash equivalents.

Accounts Receivable. Accounts receivable are uncollateralized customer obligations due under normal trade terms requiring payment within 30 days from the invoice date. Customer account balances with invoices dated over 30 days are considered delinquent.

Accounts receivable are stated at the amount management expects to collect from balances outstanding at year-end. Management has concluded that realized losses on balances outstanding at year-end will be immaterial and, accordingly, no allowance for uncollectible accounts is considered necessary.

Inventory. Inventory consists of membership premium items which are valued at the lower of cost or market by methods approximating a first in, first out basis.

Continued

MONTANA PBS
A PUBLIC TELEVISION ENTITY
OPERATED BY THE MONTANA UNIVERSITY SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Capital Assets. Capital assets with a cost, or in the case of donated property, estimated fair value at date of receipt, with values ranging from \$5,000 for equipment to \$500,000 for infrastructure, and with estimated useful lives of more than one year are capitalized.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Useful lives are determined using industry standards for similar assets.

Compensated Absences. Employees' compensated absences are accrued when earned. The obligation and expenditure incurred during the year are recorded as accrued compensated absences in the statement of net assets, and as a component of compensation and benefit expense in the statement of revenues, expenses, and changes in net assets. As of December 31 of each year, employees can accumulate vacation leave up to twice the number of leave days earned annually and sick leave can be accumulated without limitation. Upon termination, the employee is paid the accumulated vacation leave and 25% of the accumulated sick leave. Amounts recorded as compensated absences payable include employer benefits.

Other Post-Employment Benefits. The Stations have adopted Governmental Accounting Standards Board Statement Number 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions." The Stations allow retirees to participate in the Montana University System's self-funded health insurance plan by paying an amount considered by the Stations to cover their full costs (as calculated using the pooled risk of retirees and active employees). An actuarial study determined that this blended rate structure results in an implicit rate subsidy to retirees, who are considered to be a higher-cost pool of participants. The State of Montana and its component units amortize the calculated OPEB liability resulting from this implicit rate subsidy over a period of 30 years. The state has not mandated funding of the liability.

Prior Year Summarized Information. The financial statements include certain prior-year summarized comparative information in total. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the financial statements for the Stations for the year ended June 30, 2010, from which the summarized information was derived.

Net Assets. The Station's net assets are classified as follows:

Invested in capital assets, net of related debt: This represents the Stations' total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Restricted assets: The component of net assets that reports the constraints placed on the use of net assets by either external parties or enabling legislation.

Unrestricted assets: The difference between the assets and liabilities that is not reported in *Invested in capital assets, net of related debt* and *restricted assets*.

It is the Station's policy to expend restricted resources first and to use unrestricted resources when the restricted resources have been depleted.

Continued

MONTANA PBS
A PUBLIC TELEVISION ENTITY
OPERATED BY THE MONTANA UNIVERSITY SYSTEM
NOTES TO FINANCIAL STATEMENTS

June 30, 2011 and 2010

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Classification of Activities. The stations have classified their revenues as either operating or nonoperating.

Operating revenues: Operating revenues generally result from the provision of public broadcasting and instructional technology services and from the production of program material for distribution in those services. Operating revenues include (1) operating grants from CPB, federal and state agencies, and other entities, (2) appropriations and support from the Montana University System, (3) sales and services, (4) contributions from Friends for operating activities, and (5) underwriting.

Nonoperating revenues: Revenues restricted by donors to use for capital improvements and revenues and expenses that result from financing and investing activities are recorded as nonoperating revenues.

Program Underwriting. Revenue for program underwriting is recorded on a pro-rata basis for the period covered. Revenue related to subsequent years is reflected as deferred revenues in the accompanying statement of net assets.

Grants. Revenue from grants and contracts, classified as exchange transactions, is recognized to the extent of expenses incurred. When cumulative expenses incurred in accordance with the contract and grant provisions are in excess of cumulative receipts, the excess is accrued and reflected as accounts receivable with a corresponding credit to revenue, to the extent that total revenue does not exceed the grant award or contract amount. When cumulative receipts are in excess of cumulative expenses, the excess is reflected as deferred revenue. As of June 30, 2011 the Stations have recorded deferred revenue related to these grants and contracts of \$214,174.

Community Service Grants. The Corporation for Public Broadcasting (CPB) is a private, nonprofit grant-making organization responsible for funding more than 1,000 television and radio stations. CPB distributes annual Community Service Grants (CSGs) to qualifying public telecommunications entities. CSGs are used to augment the financial resources of public broadcasting stations and thereby to enhance the quality of programming and expand the scope of public broadcasting services. Each CSG may be expended over one or two federal fiscal years as described in the communications Act, 47 United States Code Annotated Section 396(k)(7), (1983) Supplement. In any event, each grant must be expended within two years of the initial grant authorization.

According to the Communications Act, funds may be used at the discretion of the recipients. Montana PBS uses these funds for purposes relating primarily to production and acquisition of programming. Also, the grants may be used to sustain activities begun with Community Service Grants awarded in prior years.

Certain general provisions must be satisfied in connection with application for and use of the grants to maintain eligibility and meet compliance requirements. These provisions generally pertain to the use of grant funds, record keeping, audits, financial reporting, mailing lists, and licensee status with the Federal Communications Commission.

Continued

MONTANA PBS
A PUBLIC TELEVISION ENTITY
OPERATED BY THE MONTANA UNIVERSITY SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

The grants were reported on the accompanying financial statements as unrestricted operating funds.

Donated Facilities, Materials and Services. Donated facilities from the Montana University System consist of office and studio space together with related occupancy costs and are recorded as revenue and expense at estimated fair rental values in the statement of activities and changes in fund balance. Administrative support from Montana University System consists of indirect costs incurred by the Universities on behalf of the Stations, determined by establishing cost pools, which are grouped into functional categories such as institutional support, and physical plant supports, which are then allocated, based on the Stations' direct costs in accordance with guidelines established by the Corporation for Public Broadcasting (CPB). Donated materials are recorded at their fair value at the time of contribution. Donated personal services are recognized if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. Both the University of Montana and Montana State University pay pension contributions and other employee benefits from a benefit cost pool on behalf of some Station employees. These expenses are allocated to the Stations as direct support.

Functional Allocation of Expenses. The cost of providing the various programs and other activities has been summarized on a functional basis in the statement of revenues, expenses, and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Tax Status. As a state institution of higher education, the income of the Stations are exempt from federal and state income taxes' however, income generated from activities unrelated to the exempt purpose is subject to income tax under Internal Revenue Code Section 511(a)(2)(B). The Unrelated Business Income Tax (UBIT) amount was \$0 for the years ended June 30, 2011 and 2010. The Stations believe that income tax filing positions will be sustained upon examination and do not anticipate any adjustments that would result in a material adverse affect on the financial statements or cash flows. Accordingly, no reserves or related accruals for interest or penalties for uncertain income tax positions have been recorded as of June 30, 2011.

The friends of Montana PBS, Inc. is a not-for-profit corporation under Internal Revenue Code Section 501(c)(3) and is classified as other than a private foundation.

Reclassifications. Certain reclassifications have been made to prior years' financial statements to conform to the current year presentation. These reclassifications had no effect on previously reported results of operations or net assets.

Continued

MONTANA PBS
A PUBLIC TELEVISION ENTITY
OPERATED BY THE MONTANA UNIVERSITY SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE B CASH AND CASH EQUIVALENTS

Cash balances are maintained in pooled funds with other University funds. The Universities allocate interest earnings based on the amounts Montana PBS has invested in the Short Term Investment Pool (STIP) with the Montana Board of Investments. Amounts held in STIP may be withdrawn by the university on demand, and as such are classified as cash equivalents, even though a portion of the pool's underlying investments may be considered noncurrent.

STIP investments are purchased in accordance with the statutorily mandated "Prudent Expert Principle." The STIP portfolio may include asset-backed securities, commercial paper, corporate and government securities, repurchase agreements and variable-rate (floating-rate) instrument. These securities are purchased to provide shareholders with a diversified portfolio earning a competitive total rate of return.

By meeting certain conditions, STIP, as a 2a7-like pool, is allowed to use amortized cost rather than fair value to report net assets to compute unit values. Funds held in STIP are reported at fair value as of June 30, based on market prices supplied to the Montana Board of Investments by its custodial bank.

Amounts due to MSU result from expenditures in excess of allocated cash balances. Cash deficits are covered through operating loans from other University sources and are reported as amounts due to MSU in the statement of net assets.

NOTE C CAPITAL ASSETS

Activity for capital assets for the year ended June 30, 2011 is summarized below:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposal</u>	<u>Ending Balance</u>
Studio and broadcast equipment	\$ 3,352,155	\$ 396,107	\$(151,700)	\$ 3,596,562
Production equipment	2,125,705	29,556	-	2,155,261
Vehicles	20,874	-	-	20,874
Software	13,528	-	-	13,528
Office machines	15,245	-	-	15,245
Transmission, antenna & tower	4,627,238	198,454	-	4,825,692
Accumulated depreciation	<u>(6,121,703)</u>	<u>(830,349)</u>	<u>151,700</u>	<u>(6,800,352)</u>
Total capital assets, net	<u>\$ 4,033,042</u>	<u>\$(206,232)</u>	<u>\$(_____)</u>	<u>\$ 3,826,810</u>

Donated Documentary. During the year ended June 30, 2003, KUFM TV was donated a documentary worth \$86,512, which is being amortized over 10 years. The balance at June 30, 2011 of \$10,814 is included in studio and broadcast assets above.

Continued

MONTANA PBS
A PUBLIC TELEVISION ENTITY
OPERATED BY THE MONTANA UNIVERSITY SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE D LONG TERM LIABILITIES

The following is a summary of the changes in noncurrent liabilities for the year ended June 30, 2011:

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Due in One Year
OPEB	\$ 248,201	\$103,103	\$ -	\$ 351,304	\$ -
Compensated absences	309,311	-	19,349	289,962	126,160
Capital leases	12,830	-	2,568	10,262	2,999
	<u>\$ 570,342</u>	<u>\$103,103</u>	<u>\$ 21,917</u>	<u>\$ 651,528</u>	<u>\$ 129,159</u>

Capital Lease. During fiscal year 2010, KUSM TV entered into a capital lease agreement for a copier. Under the terms of the lease agreement, KUSM TV has the right to purchase the copier at the end of the 60-month lease term.

The following is a schedule of cash requirements for the year ending June 30, 2011:

	<u>Capital Lease Obligation</u>	
	<u>Principal</u>	<u>Interest</u>
2012	\$ 2,999	\$ 623
2013	3,216	407
2014	3,448	174
2015	599	5
	<u>\$ 10,262</u>	<u>\$ 1,209</u>

NOTE E OPERATING LEASES

Telecommunication Lease. During the fiscal year ended June 30, 1997, The University of Montana, on behalf of Montana PBS, entered into a lease of telecommunication services. The lessor provides and maintains a dedicated private line, high-speed bi-directional DS-3, point-to-point communication transmission service between KUFM TV in Missoula and KUSM TV in Bozeman.

This contract was scheduled to expire during the fiscal year ended June 30, 2009, but was extended until October 2013.

Satellite Transponder Lease. During the year ended June 30, 2004, Montana State University, on behalf of Montana PBS, entered into a 5-year service contract with Public Broadcasting Service for a digital satellite transponder. The total of the original contract was \$1,008,000 and expired in September 2008. The lease was extended through September 2013 with monthly payments of \$19,050 due each month through September 2010, and monthly payments of \$12,965 due each month through September 2013.

Continued

MONTANA PBS
A PUBLIC TELEVISION ENTITY
OPERATED BY THE MONTANA UNIVERSITY SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE E OPERATING LEASES, continued

The future minimum obligations under the operating leases as of June 30, 2011 follow for the satellite transponder lease:

Year Ended June 30:

2012	\$ 155,580
2013	155,580
2014	<u>38,895</u>
Total	\$ <u>350,055</u>

Rental Activity. Rental Activity, including amortization of prepaid rent, for the year ended June 30, 2011 is as follows:

Telecommunication lease	\$ 24,480
Satellite transponder lease	<u>173,835</u>
	\$ <u>198,315</u>

NOTE F EMPLOYEE BENEFIT PLANS

PENSION PLANS

The Stations' employees are covered under the Montana Public Employees Retirement System (PERS), the Montana Teachers' Retirement System (TRS) or the Optional Retirement Program (ORP). The PERS and TRS plans are defined benefit retirement plans. The PERS and the TRS are multiple-employer, cost sharing plans. Only faculty and staff with contracts under the authority of the Board of Regents may elect either the TRS or the ORP.

The amounts contributed to the plans during the year ended June 30, 2011 were equal to the required contributions for the year:

	PERS	TRS	ORP
KUSM TV	\$ 27,295	\$ 18,254	\$ 36,373
KUFM TV	\$ 15,358	\$ -	\$ 7,047

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June 30, 2011 and 2010

NOTE F EMPLOYEE BENEFIT PLANS, continued

Following is a schedule of required contributions to the plan:

	Contributions	
	(as a percentage of salary)	
	<u>Employee</u>	<u>Employer</u>
Public Employees' Retirement System (PERS)	6.900%	7.170%
Teacher's Retirement System (TRS)	10.620%	9.850%
Optional Retirement Program (ORP)	6.900%	4.490%
Additional State Contribution	- %	1.000%

The above funding policies provide for periodic employer and employee contributions at rates specified by State law. Contribution requirements are not actuarially determined. An actuary determines the actuarial implications of the funding requirements in a biennial actuarial evaluation. The actuarial method used to determine the implications of the statutory funding level is the entry age normal funding method, with both normal cost and amortization of the unfunded accrued liability determined as a level percentage of payrolls. To maintain the fund on an actuarially sound basis, the rate of contributions should fund the normal cost in addition to amortizing the unfunded liability over a period of 40 years. Each system functions uniquely as described as follows:

Public Employees' Retirement System (PERS). This system was established in 1945 and governed by Title 19, Chapter 3 of the Montana Code Annotated, as a cost-sharing multi-employer defined benefit pension plan that provides retirement services to substantially all public employees. Effective July 1, 2002, eligible new employees are defaulted into the PERS plan and have one year from their date of hire to elect whether to stay in the PERS plan, enroll in the ORP plan, or enroll in the PERS Defined Contribution Plan. Benefit eligibility is age 60 with at least 5 years of service; age 65 regardless of service; or 30 years of service regardless of age. Actuarially reduced benefits may be taken with 25 years of service or at age 50 with at least 5 years of service.

Monthly retirement benefits are determined by multiplying 1/56 by the number of years of service by the final average salary (average of three highest years), unless the employee has 25 years of service, in which case the multiplier is 1/50. Members' rights become vested after 5 years of service. Additional information or a separate financial statement can be obtained from the State of Montana, Department of Administration, Public Employees' Retirement Administration, P. O. Box 200131, Helena, MT 59620-0131.

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MONTANA PBS
A PUBLIC TELEVISION ENTITY
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NOTES TO FINANCIAL STATEMENTS

June 30, 2011 and 2010

NOTE F EMPLOYEE BENEFIT PLANS, continued

Teachers' Retirement System (TRS). This mandatory system established in 1937 and governed by Title 19, Chapter 4 of the Montana Code Annotated, is a cost-sharing multi-employer defined benefit pension plan that provides retirement services to all persons employed as teachers or professional staff of any public elementary or secondary school, vocational-technical center or unit of the university system. Eligibility is met with a minimum of 25 years of service or age 60 with at least 5 years of creditable service. The formula for accrual benefits is 1/60 times creditable service times the average final compensation (average of three highest years). Rights are vested after 5 years of the creditable service. Vested employees may retire at or after age 50 and receive reduced retirement benefits. Additional information or a separate financial statement can be obtained from the State of Montana, Department of Administration, Teachers' Retirement Division, P. O. Box 200239, Helena, MT 59620-01391.

Optional Retirement Program (ORP). This system was established in January of 1998, and is underwritten by the Teachers' Insurance and Annuity Association-College Retirement Equity Fund (TIAA-CREF). The ORP is a defined contribution plan. The benefits at retirement depend upon the amount of investing gains and losses and the employee's life expectancy at retirement. Under the ORP, each employee enters into an individual contract with TIAA-CREF (therefore, the employee assumes the investment risk for their retirement). Montana State University records employee/employer contributions, and remits monies to TIAA-CREF. Individuals are immediately vested with contributions. For ORP participants 2.503% was contributed to TRS as employer contributions to amortize past service unfunded liability in accordance with State law. An additional 1.00% was contributed by the employer starting fiscal year 2008 due to state law changes.

Pension Benefit Obligation is not available on an agency basis, but is available on a statewide basis from the Montana Retirement System of TIAA-CREF.

Other Post-Employment Benefits

Authorization. Montana State law requires state agencies to provide access to health insurance benefits to eligible retirees up to Medicare – eligible age (65) (§2-18-704(1)(a), MCA). The Board of Regents of the Montana University System (MUS), having broad authority to act in the best interests of the MUS, has directed the Office of the Commissioner of Higher Education (OCHE) to provide access to health insurance benefits beyond age 65. Eligible University retirees may participate in the health insurance plan, provided that they contribute to the cost of the plan.

Continued

MONTANA PBS
A PUBLIC TELEVISION ENTITY
OPERATED BY THE MONTANA UNIVERSITY SYSTEM
NOTES TO FINANCIAL STATEMENTS

June 30, 2011 and 2010

NOTE F EMPLOYEE BENEFIT PLANS, continued

Eligibility. Retirees who are eligible to receive retirement benefits from Teachers Retirement System (TRS) or the Public Employees Retirement System (PERS) at the time employment ceases may participate in the plan. Retirees who are in the Optional Retirement Plan (ORP) (through TIAA-CREF) or any other defined contribution plan associated with the MUS must have worked five or more years and be age 50, or have worked 25 years with the MUS to be eligible for retiree insurance benefits. The MUS's Interunit Benefits Committee, at the direction of the OCHE, sets the premiums for such participation. Until a retiree reaches age 65, individual retiree participation premiums range from \$517 — \$608 per month, depending on the level of deductible and other selected plan features. Upon reaching age 65 (Medicare eligibility), monthly participation premiums range from \$263 — \$310 for an individual retiree. Coverage is also extended to dependents and surviving dependents of the employee.

Financial and plan information. The MUS Group Benefits Plan does not issue a standalone financial report, but is subject to audit as part of the State of Montana's Comprehensive Annual Financial Report (CAFR). A copy of the most recent CAFR can be obtained online at <http://afsd.mt.gov/CAFR/CAFR.asp> or by contacting the Montana Department of Administration, P. O. Box 200102, Helena, MT 59620-0102.

The plan is considered to be a multi-employer agent plan. All units of the MUS fund the post-employment benefits on a pay-as-you-go basis from general assets. The University's annual other post employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with GASB Statement No. 45. The calculated ARC represents an amount that, if funded, would cover normal cost each year and amortize any unfunded actuarial liability over a period of 30 years. For the fiscal year ended June 30, 2011 and June 30, 2010, the universities' combined annual OPEB cost (expense) of \$20,439,752 and \$19,606,475 was equal to the ARC. The actuarial determination was based on plan information as of July 1, 2009. At that time, the number of active participants in the health insurance plan was 6,431.

The total number of inactive (retiree and dependent) participants was 2,157. During the year ended June 30, 2011 and 2010, the Universities contributed \$57,374,290 and \$53,629,670 for actively employed participants, whose annual covered payroll totaled \$366,087,487 as of the last actuarial valuation. The Universities do not contribute to the plan for retirees or their dependents.

As of the latest actuarial evaluation, the accrued liability for retiree health benefits was \$173,109,813, all of which was unfunded. The percentage of annual OPEB cost contributed to the plan was 0% for both years, and the net OPEB obligation was \$73,383,448 and \$52,943,696 for 2011 and 2010 respectively. The funded status of the plan as of June 30 was 0% for both years.

Continued

MONTANA PBS
A PUBLIC TELEVISION ENTITY
OPERATED BY THE MONTANA UNIVERSITY SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE F EMPLOYEE BENEFIT PLANS, continued

The Universities' OPEB obligations for 2011 and 2010 are:

<u>Year ended June 30</u>	<u>2011</u>	<u>2010</u>
Annual required contribution	\$ 19,422,031	\$ 18,968,311
Interest on net OPEB obligation	1,017,721	638,164
Adjustment to annual required contribution	<u>-</u>	<u>-</u>
Annual OPEB cost	20,439,752	19,606,475
Contributions made	<u>-</u>	<u>-</u>
Increase to net OPEB obligation	20,439,752	19,606,475
Net OPEB obligation - beginning of year	<u>52,943,696</u>	<u>33,337,221</u>
Net OPEB obligation - end of year	\$ <u>73,383,448</u>	\$ <u>52,943,696</u>

Actuarial Methods and Assumptions. The projected unit credit funding method was used to determine the cost of the MUS System Employee Group Benefits Plan. This method's objective is to fund each participant's benefits under the plan as they accrue. The total benefit to which each participant is expected to become entitled at retirement is categorized into units, each associated with a year of past or future credited service. The actuarial assumptions included, in addition to marital status at retirement, mortality rates and retirement age:

Interest/Discount rate	4.25%
Projected payroll increases	2.50%
Participation	55% of future retirees are assumed to elect coverage at the time of retirement, 60% of future eligible spouses of future retirees are assumed to elect coverage

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events into the future. Such events include assumptions about future employment, mortality rates, and healthcare cost trends. Amounts are subject to continual review and revision as actual results are compared with past expectations and new estimates are made.

MONTANA PBS
A PUBLIC TELEVISION ENTITY
OPERATED BY THE MONTANA UNIVERSITY SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE G COMMITMENTS AND CONTINGENCIES

The Stations operate their programs with the aid of funding primarily from the following sources:

1. CPB CSG grants.
2. Appropriations from the Montana University System.
3. Contributions from Friends of Montana PBS, Inc.

A major reduction in the level of support from any of these funding sources could have a negative impact on the Stations' ability to maintain its current programs.

Montana PBS must use its community service grants within two-year grant periods. Any unexpended funds must be returned to the Corporation for Public Broadcasting. Although it is a possibility that the funds could not be spent within the grant period, the management of Montana PBS deems the contingency remote.

The Stations face a number of risks of loss, including (a) damage to and loss of property and contents, (b) employee torts, and (c) Workers' Compensation. The Stations, as departments of the Montana University System, participate in the risk management programs of the Montana University System and the State of Montana.

Digital Television Conversion. The Federal Communications Commission required that all television stations convert to digital technology (DTV) by February 2, 2005. Montana PBS completed the installation of digital transmitters in Missoula and Bozeman by the required date, which is all that was necessary for the FCC mandate.

Montana PBS also sought and received a DTV channel allocation and construction permits in Great Falls. The Great Falls station, KUGF, signed on the air October 11, 2010.

NOTE H RELATED PARTY TRANSACTIONS

During the year ended June 30, 2011, the Stations received \$927,826 of monetary support from Friends of Montana PBS, Inc.

MONTANA PBS
A PUBLIC TELEVISION ENTITY
OPERATED BY THE MONTANA UNIVERSITY SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE I IN-KIND CONTRIBUTIONS

The following in-kind contributions were recorded in Montana PBS's financial statements for the year ended June 30, 2011:

University indirect administrative support and occupancy	\$ 876,690
In-kind services provided by program sponsors	<u>40,432</u>
Total	\$ <u>917,122</u>

NOTE J SUBSEQUENT EVENTS

Management has performed an analysis of the activities and transactions subsequent to June 30, 2011 to determine the need for any adjustments to and/or disclosure within the audited financial statements for the year ended June 30, 2011. This analysis has been performed through January 23, 2012, the date the financial statements were available to be issued and there are no subsequent events that require recognition or disclosure in these financial statements.

REQUIRED SUPPLEMENTAL INFORMATION

MONTANA PBS
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OPERATED BY THE MONTANA UNIVERSITY SYSTEM
REQUIRED SUPPLEMENTAL INFORMATION
June 30, 2011 and 2010

Schedule of Funding Status for Other Post Retirement Benefits for Health Insurance

The funded status of the plan as of the actuarial valuations dated July 1, 2007 and 2009 were as follows:

	<u>2007</u>	<u>2009</u>
Actuarial accrued liability (AAL)	\$ 173,351,518	\$ 173,109,813
Actuarial value of plan assets	-	-
Unfunded actuarial accrued liability (UAAL)	<u>\$ 173,351,518</u>	<u>\$ 173,109,813</u>
Funded ratio (actuarial value of plan assets/AAL)	0.00%	0.00%
Covered payroll (active plan members)	\$ 331,582,858	\$ 366,087,478
UAAL as a percentage of covered payroll	52.28%	47.29%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Such events include assumptions about future employment, mortality rates, and healthcare cost trends. Actuarially determined amounts are subject to continual review and revision as actual results are compared with past expectations and new estimates are made about the future.

The actuarial assumptions included in the valuations, in addition to marital status at retirement, mortality rates and retirement age, were as follows:

<u>Actuarial Valuation Date:</u>	<u>July 1, 2007</u>	<u>July 1, 2009</u>
Interest/Discount rate	4.25%	4.25%
Projected payroll increases	3.00%	2.50%
Participant Percentage:		
Future retirees assumed to elect coverage at retirement	45.00%	55.00%
Future eligible spouses of future retirees assumed to elect coverage	59.00%	60.00%

MONTANA PBS
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OPERATED BY THE MONTANA UNIVERSITY SYSTEM
COMBINED SCHEDULE OF FUNCTIONAL EXPENSES
for the years ended June 30

	Broadcasting	Programming and Production	Program Information and Promotion	Total Program Services	Management and General	Fundraising and Membership Development	Solicitation and Underwriting	2011 Total Expenses	2010 Total Expenses
Salaries and benefits	\$ 760,298	\$ 441,770	\$ 74,426	\$ 1,276,494	\$ 433,891	\$ 208,644	\$ 67,244	\$ 1,986,273	\$ 2,080,779
Services	141,447	129,201	15,751	286,399	26,109	55,337	-	367,845	385,003
Supplies	229,005	107,664	2,794	339,463	27,027	3,214	-	369,704	319,966
Communications	187,773	42,259	536	230,568	22,350	34,851	161	287,930	351,440
Travel	20,038	22,588	4,914	47,540	13,785	9,880	187	71,392	99,090
Rent	9,347	6,362	850	16,559	4,180	-	140	20,879	28,026
Repair and maintenance	99,077	34,000	784	133,861	4,921	-	-	138,782	116,012
Other	369,465	843,714	39,578	1,252,757	204,651	144,106	30,902	1,632,416	1,409,191
Depreciation and amortization	582,205	185,902	-	768,107	57,731	4,509	-	830,347	776,206
Total operating expenses	\$ 2,398,655	\$ 1,813,460	\$ 139,633	\$ 4,351,748	\$ 794,645	\$ 460,541	\$ 98,634	\$ 5,705,568	\$ 5,565,713

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

MONTANA PBS
A PUBLIC TELEVISION ENTITY OPERATED BY
THE MONTANA UNIVERSITY SYSTEM
COMBINING SCHEDULE OF NET ASSETS
June 30, 2011

ASSETS	<u>KUSM</u>	<u>KUFM</u>	<u>Total</u>
CURRENT ASSETS			
Cash and cash equivalents	\$ 342,019	\$ 164,782	\$ 506,801
Accounts receivable	7,893	1,406	9,299
Prepaid expenses	37,991	-	37,991
Total current assets	<u>387,903</u>	<u>166,188</u>	<u>554,091</u>
CAPITAL ASSETS			
Studio and broadcast equipment	2,199,036	1,397,526	3,596,562
Production equipment	2,155,261	-	2,155,261
Vehicles	20,874	-	20,874
Software	13,528	-	13,528
Office machines	15,245	-	15,245
Transmission, antenna, tower	3,593,207	1,232,485	4,825,692
Accumulated depreciation	<u>(5,556,601)</u>	<u>(1,243,751)</u>	<u>(6,800,352)</u>
Total capital assets	<u>2,440,550</u>	<u>1,386,260</u>	<u>3,826,810</u>
NONCURRENT ASSETS			
Prepaid expenses	10,214	-	10,214
Restricted investment held by trustee	13,105	1,340	14,445
Total noncurrent assets	<u>23,319</u>	<u>1,340</u>	<u>24,659</u>
	<u>\$ 2,851,772</u>	<u>\$ 1,553,788</u>	<u>\$ 4,405,560</u>
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable and accrued expenses	\$ 44,973	\$ 2,385	\$ 47,358
Deferred revenue	179,587	34,587	214,174
Current portion, compensated absences	83,349	42,811	126,160
Current portion, capital lease obligations	2,999	-	2,999
Total current liabilities	<u>310,908</u>	<u>79,783</u>	<u>390,691</u>
NONCURRENT LIABILITIES			
Compensated absences, net of current portion	100,698	63,104	163,802
Capital Lease, net of current portion	7,263	-	7,263
Net OPEB obligation	272,095	79,209	351,304
Total noncurrent liabilities	<u>380,056</u>	<u>142,313</u>	<u>522,369</u>
Total liabilities	<u>690,964</u>	<u>222,096</u>	<u>913,060</u>
NET ASSETS			
Invested in capital assets, net of related debt	2,430,288	1,386,260	3,816,548
Unrestricted	<u>(269,480)</u>	<u>(54,568)</u>	<u>(324,048)</u>
Total net assets	<u>2,160,808</u>	<u>1,331,692</u>	<u>3,492,500</u>
	<u>\$ 2,851,772</u>	<u>\$ 1,553,788</u>	<u>\$ 4,405,560</u>

MONTANA PBS
A PUBLIC TELEVISION ENTITY OPERATED BY
THE MONTANA UNIVERSITY SYSTEM
COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
for the year ended June 30, 2011

	KUSM	KUFM	Total
OPERATING REVENUES			
Grants from CPB	\$ 897,163	\$ -	\$ 897,163
Grants from federal agencies	185,000	-	185,000
Grants from state agencies		-	-
Grants from public broadcasting entities	67,526	-	67,526
Nongovernmental grants and contracts	34,879	20,822	55,701
Support from the Montana University System			
Appropriations for operations	694,025	439,464	1,133,489
Donated and indirect	774,107	102,583	876,690
Contributions from Friends used for operations	734,014	194,093	928,107
Sales and services	58,737	26,282	85,019
Underwriting	37,557	-	37,557
Other contributions	107,358	-	107,358
Other operating revenue	187,025	74,830	261,855
Total operating revenues	<u>3,777,391</u>	<u>858,074</u>	<u>4,635,465</u>
OPERATING EXPENSES			
Broadcasting	2,104,805	293,850	2,398,655
Programming and production	1,322,635	490,825	1,813,460
Program information and promotion	139,633	-	139,633
Management and general	548,305	246,340	794,645
Fundraising and membership development	460,541	-	460,541
Solicitation and underwriting	98,634	-	98,634
Total operating expenses	<u>4,674,553</u>	<u>1,031,015</u>	<u>5,705,568</u>
OPERATING INCOME (LOSS)	<u>(897,162)</u>	<u>(172,941)</u>	<u>(1,070,103)</u>
NONOPERATING REVENUES			
Federal grants and contracts for capital projects	451,677	-	451,677
Contributions from Friends for capital	9,400	-	9,400
Capital contributions	25,881	51,069	76,950
Contributions - other	31,538	9,800	41,338
Investment income	2,151	1,615	3,766
Total nonoperating revenues	<u>520,647</u>	<u>62,484</u>	<u>583,131</u>
OTHER EXPENSE - INTEREST EXPENSE	<u>(1,051)</u>	<u>-</u>	<u>(1,051)</u>
NET CHANGE IN NET ASSETS	<u>(377,566)</u>	<u>(110,457)</u>	<u>(488,023)</u>
NET ASSETS - Beginning of year	<u>2,538,374</u>	<u>1,442,149</u>	<u>3,980,523</u>
NET ASSETS - End of year	<u>\$ 2,160,808</u>	<u>\$ 1,331,692</u>	<u>\$ 3,492,500</u>

MONTANA PBS
A PUBLIC TELEVISION ENTITY OPERATED BY
THE MONTANA UNIVERSITY SYSTEM
COMBINING SCHEDULE OF CASH FLOWS
for the year ended June 30, 2011

	<u>KUSM</u>	<u>KUFM</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from grantors	\$ 1,177,209	\$ 295,505	\$ 1,472,714
Receipts from others	1,898,540	540,576	2,439,116
Compensation and benefits	(1,412,978)	(510,050)	(1,923,028)
Other operating expenses	<u>(1,799,119)</u>	<u>(170,358)</u>	<u>(1,969,477)</u>
Net cash from operating activities	<u>(136,348)</u>	<u>155,673</u>	<u>19,325</u>
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of investments	<u>(12,589)</u>	-	<u>(12,589)</u>
Net cash from noncapital and related financing activities	<u>(12,589)</u>	-	<u>(12,589)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchases of capital assets	(498,194)	(119,924)	(618,118)
Cash received from capital grants and contributions	484,973	51,069	536,042
Principal and interest paid on long-term debt	<u>(3,629)</u>	-	<u>(3,629)</u>
Net cash from capital and related financing activities	<u>(16,850)</u>	<u>(68,855)</u>	<u>(85,705)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment income (expense)	<u>2,151</u>	<u>273</u>	<u>2,424</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(163,636)	87,091	(76,545)
CASH AND CASH EQUIVALENTS - Beginning of year	<u>505,655</u>	<u>77,691</u>	<u>583,346</u>
CASH AND CASH EQUIVALENTS - End of year	<u>\$ 342,019</u>	<u>\$ 164,782</u>	<u>\$ 506,801</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH FLOWS FROM OPERATING ACTIVITIES			
Operating loss	\$ (897,162)	\$ (172,941)	\$ (1,070,103)
Adjustments to reconcile change in net assets to net cash from operating activities			
Depreciation and amortization	612,345	218,004	830,349
In-kind contribution	30,632	9,800	40,432
(Increase) decrease in assets			
Accounts and grants receivable	24,419	58,647	83,066
Prepaid expenses	13,496	-	13,496
Increase (decrease) in liabilities			
Accounts payable and accrued expenses	(924)	(103)	(1,027)
Compensated absences	(14,354)	(4,995)	(19,349)
Deferred grants and revenue	17,414	21,944	39,358
Net OPEB obligation	<u>77,786</u>	<u>25,317</u>	<u>103,103</u>
Net cash flows from operating activities	<u>\$ (136,348)</u>	<u>\$ 155,673</u>	<u>\$ 19,325</u>

MONTANA PBS
A PUBLIC TELEVISION ENTITY
OPERATED BY THE MONTANA UNIVERSITY SYSTEM
RECONCILIATION SCHEDULES
for the year ended June 30

	KUSM	KUFM	Friends of Montana PBS, Inc.	2011 Total	2010 Total
SUPPORT AND REVENUES					
Total support and revenues per statement of revenue, expenses, and changes in net assets					
Operating revenues	\$ 3,777,391	\$ 858,074	\$ -	\$ 4,635,465	\$ 4,782,191
Nonoperating revenues	<u>520,647</u>	<u>62,484</u>	<u>1,491,518</u>	<u>2,074,649</u>	<u>1,968,517</u>
Subtotal per CPB report Schedule F	<u>4,298,038</u>	<u>920,558</u>	<u>1,491,518</u>	<u>6,710,114</u>	<u>6,750,708</u>
Less					
Federal support	636,677	-	-	636,677	212,274
Public broadcasting support	960,363	-	-	960,363	1,044,458
Friends revenue presented discretely	-	-	927,826	927,826	1,168,852
In-kind revenue (not NFFS)	1,245	9,800	-	11,045	30,320
Capital grants and contributions	29,281	51,069	-	80,350	541,033
Miscellaneous other items	<u>158,883</u>	<u>86,330</u>	<u>(1,000)</u>	<u>244,213</u>	<u>354,082</u>
Subtotal	<u>1,786,449</u>	<u>147,199</u>	<u>926,826</u>	<u>2,860,474</u>	<u>3,351,019</u>
Non-Federal financial support per CPB report summary, Line 5	<u>\$ 2,511,589</u>	<u>\$ 773,359</u>	<u>\$ 564,692</u>	<u>\$ 3,849,640</u>	<u>\$ 3,399,689</u>
EXPENSES					
Total expenses per statement of revenues, expenses, and changes in net assets	\$ 4,675,604	\$ 1,031,015	\$ 1,208,908	\$ 6,915,527	\$ 7,016,758
Less contributions from Friends of Montana PBS to Montana PBS/ KUSM TV/KUFM TV	<u>-</u>	<u>-</u>	<u>927,826</u>	<u>927,826</u>	<u>1,168,852</u>
OPERATING EXPENSES PER CPB Report Summary, Schedule E, Line 8	<u>\$ 4,675,604</u>	<u>\$ 1,031,015</u>	<u>\$ 281,082</u>	<u>\$ 5,987,701</u>	<u>\$ 5,847,906</u>