

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

KUFM-FM RADIO
A PUBLIC TELECOMMUNICATIONS ENTITY
OPERATED BY UNIVERSITY OF MONTANA

June 30, 2013 and 2012

KUFM-FM RADIO
A PUBLIC TELECOMMUNICATIONS ENTITY OPERATED BY
UNIVERSITY OF MONTANA
June 30, 2013 and 2012

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Management's Discussion and Analysis
June 30, 2013 and 2012

INTRODUCTION

The management's discussion and analysis (MD&A) provides an overview of KUFM-FM Radio's (KUFM) financial position and activities for the fiscal years ended June 30, 2013 and 2012. 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.

KUFM is a not-for-profit organization and component unit of the Montana University System as well as a National Public Radio affiliate. It provides public radio programming and services to the city of Missoula and other communities in Montana that fall within the KUFM reception area. Together with seven full-powered transmitters and numerous translators that broadcast twenty-four hours a day, KUFM boasts a coverage area spanning nearly half of Montana. KUFM's network service is branded as Montana Public Radio (MTPR) with central operations located at the University of Montana – Missoula.

USING THE FINANCIAL STATEMENTS

Pursuant to GASB Statement No. 35, the basic financial statements consist of the following three statements: Statement of Net Position; Statement of Revenues, Expenses and Changes in Net Position; Statement of Cash Flows; and 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, whereas revenues are recognized when services are provided and expenses are recognized when goods or services are received, regardless of when cash is exchanged.

FINANCIAL HIGHLIGHTS AND ANALYSIS

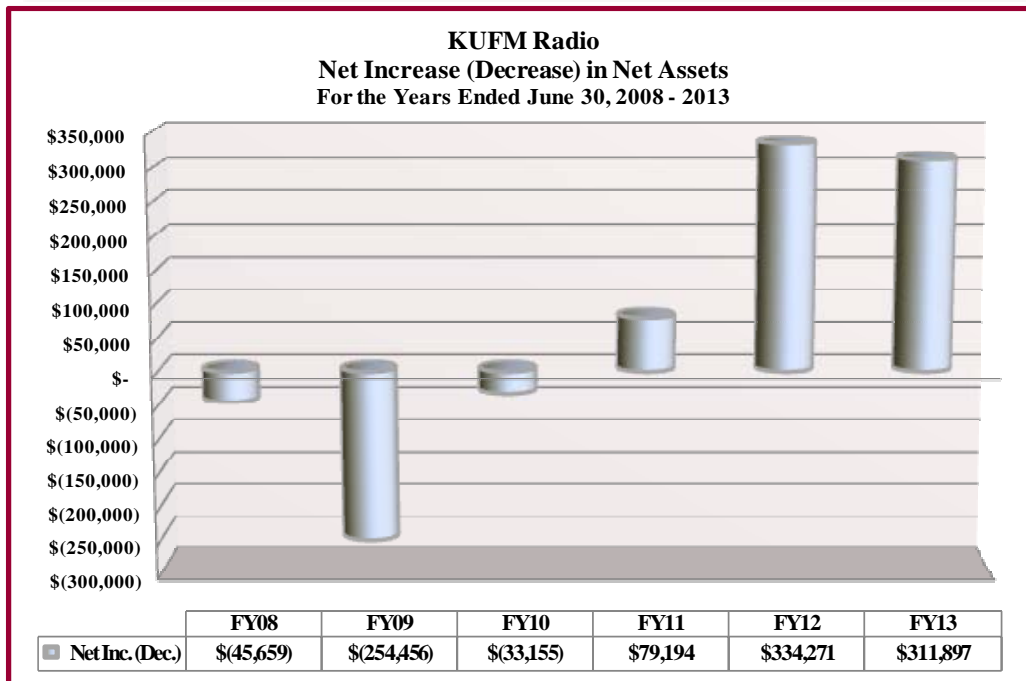
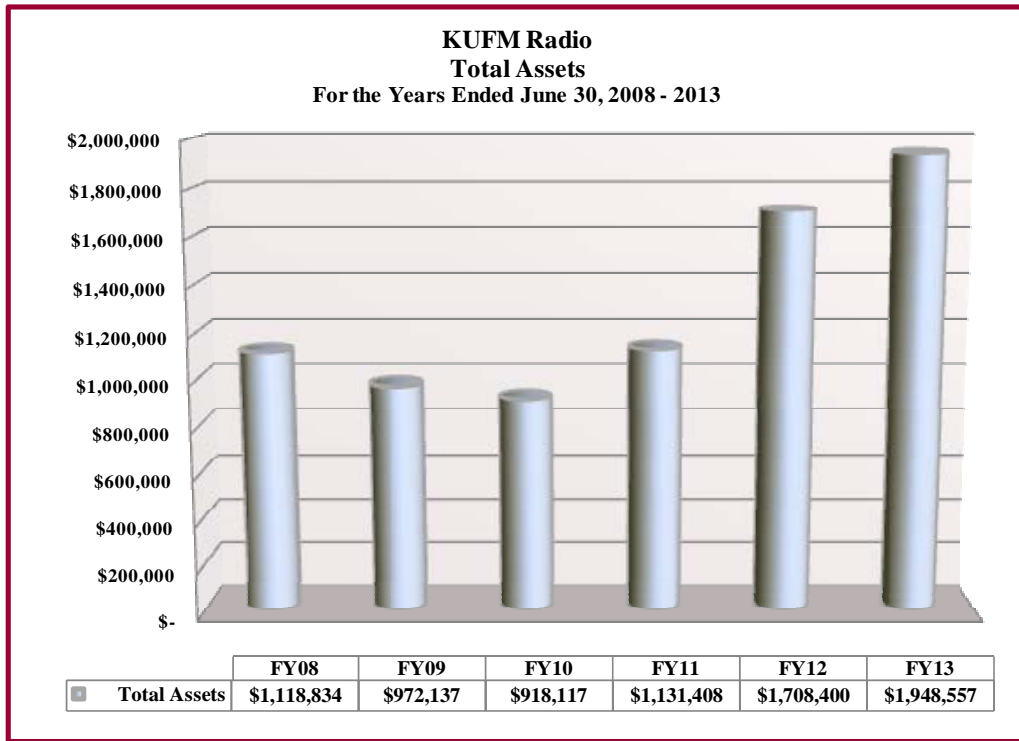
KUFM's net financial position improved in fiscal year 2013, increasing by \$311,897, or over 14%. Over the past three fiscal years, KUFM's net financial position has increased by more than \$725,000, or close to 80%. While the growth in operating revenues was relatively flat in all categories, private gifts increased by \$444,928 or 36.9% during the year, highlighting the ongoing success of KUFM's efforts to grow support from other funding sources. The increase in operating and non-operating revenues offset the 9% increase in operating expenses of \$211,675 and a \$303,955 decline in capital grants and gifts in FY13.

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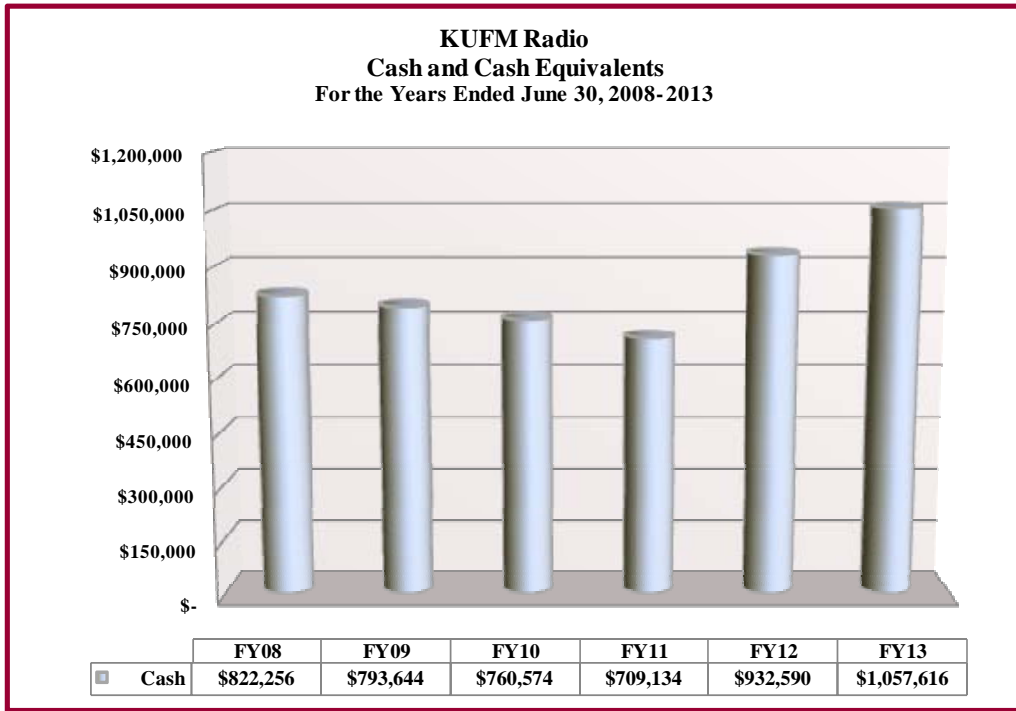
FINANCIAL HIGHLIGHTS AND ANALYSIS (continued)

The following charts illustrate the current year changes and financial position of KUFM over five consecutive years.



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FINANCIAL HIGHLIGHTS AND ANALYSIS (continued)

Statement of Net Position

The Statement of Net Position presents the financial position of KUFM at the end of the fiscal year and includes all assets and liabilities. The difference between total assets and total liabilities (Net Position) 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 Position is as follows at June 30:

	2013	2012	2011
ASSETS			
Total current assets	\$ 1,196,238	\$ 1,066,022	\$ 830,684
Total non-current assets	752,319	642,378	300,724
	<u>\$ 1,948,557</u>	<u>\$ 1,708,400</u>	<u>\$ 1,131,408</u>
LIABILITIES			
Total current liabilities	\$ 233,295	\$ 332,330	\$ 138,845
Total non-current liabilities	403,430	376,135	326,899
Total liabilities	<u>636,725</u>	<u>708,465</u>	<u>465,744</u>
NET POSITION			
Net invested in capital assets	568,178	571,230	252,599
Restricted	168,980	47,034	43,936
Unrestricted	574,674	381,671	369,129
Total net position	<u>1,311,832</u>	<u>999,935</u>	<u>665,664</u>
	<u>\$ 1,948,557</u>	<u>\$ 1,708,400</u>	<u>\$ 1,131,408</u>

Events or developments which occurred during 2013

- Current assets increased by over \$130,000 in FY13 primarily from an increase in cash and cash equivalents of over \$125,000, due largely to an increase in private gifts from successful fund raising efforts during the year. The net increase in other current asset classifications was slightly more than \$5,000.
- Noncurrent assets increased by almost \$110,000 primarily due to an increase in endowed investments of \$119,000, offset by a net decrease in capital assets of \$9,000. Capital asset additions in FY13 totaled \$60,000, which was offset by increase in accumulated depreciation of \$69,000.
- In FY13, current liabilities declined by \$137,000 largely due to a \$130,000 decrease in accounts payable and accrued liabilities, and a decrease in deferred revenue of \$17,000. Construction on two transmission facilities contributed to higher balances in these classifications at the end of FY12. The projects were completed in FY13 and no similar size projects were started during the year.

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FINANCIAL HIGHLIGHTS AND ANALYSIS (continued)

- Noncurrent liabilities increased by over \$27,000 due largely to a \$35,000 increase in the liability for other post employment benefits (OPEB), which is the annual amortization, plus interest, of the unfunded actuarially accrued liability for benefits calculated in accordance with GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, offset by a combine decrease of \$8,000 in advances to primary government and accrued compensated absences.
- KUFM's net position improved in FY13 by almost \$312,000, largely due to a substantial increase in private gifts from its successful fund raising efforts, and a \$120,000 endowed contribution received during the year.

Events or developments which occurred during 2012

- Current assets increased by over \$235,000 in FY12. Cash and cash equivalents increased by \$223,000, due in part to a decrease in cash used in operating activities compared to FY11, and accounts receivable increased by \$105,000 due to a receivable from a private grant awarded to complete several capital projects. The increases in current assets were offset by a decrease of \$93,000 for amounts due from other governments and prepaid expenses.
- Noncurrent assets increased by almost \$342,000 due principally to the capitalization of costs incurred to complete construction of two transmission facilities that will provide broader public radio coverage to northwest Montana and the capitalization of other facility upgrade project costs.
- Current liabilities increased by over \$193,000 primarily as a result of increases in accounts payable (\$90,000) and deferred revenue (\$44,000) and property held in trust (\$46,000). Deferred revenue, which consists of unrestricted gifts and grants received for a specific purpose can only be recorded as revenue when the related expenses are incurred. The increase in accounts payable and deferred revenue relate primarily to federal and private grants awarded to construct two transmission facilities that were largely completed in FY12.
- Noncurrent liabilities increased by over \$49,000 because of the increase in the OPEB liability of \$38,000 and a \$21,000 increase in accrued compensated absences, which was offset by a \$7,000 decrease in advances from the primary government that was incurred to acquire fund raising software.

The net OPEB liability reflects the implicit rate subsidy associated with post employment benefits other than pensions.

- Net position increased by over \$334,000 due largely to a \$319,000 invested in capital assets increase, net of related debt, which resulted from the capitalization of construction costs and equipment purchases made during the year.

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FINANCIAL HIGHLIGHTS AND ANALYSIS (continued)

Statement of Revenues, Expenses and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position present the results of KUFM'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 radio services). Non-operating revenues and expenses are transactions that are not related to the entity's basic operations. An operating loss was reported in the Statement of Revenues, Expenses and Changes in Net Position primarily because GASB defines private gift revenues as non-operating.

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

	2013	2012	2011
Operating revenue	\$ 1,069,273	\$ 1,026,209	\$ 948,995
Operating expenses	2,530,158	2,318,483	2,218,033
Operating loss	(1,460,885)	(1,292,274)	(1,269,038)
Non-operating revenues	1,660,844	1,210,652	1,173,649
Income (loss) before other revenues	199,959	(81,622)	(95,389)
Other revenues	111,938	415,893	174,583
Net change in net position	311,897	334,271	79,194
Net position, beginning of year	999,935	665,664	586,470
Net position, end of year	<u>\$ 1,311,832</u>	<u>\$ 999,935</u>	<u>\$ 665,664</u>

Events or developments which occurred during 2013

- The increase in KUFM's net position of \$312,000 is slightly less than the \$334,000 increase in net position realized in the prior year. The improvement in FY13 was primarily due to an increase in revenue from private gifts received through fund raising of almost \$445,000, and an endowed contribution of \$120,000, offset by an increase in operating expenses of \$212,000. Capital grants and gifts declined by \$304,000 due to the completion of the signal extension projects and facility improvement projects in early FY13.

Events or developments which occurred during 2012

- KUFM's net position increased by over \$334,000, which is a \$255,000 increase over the prior year. This improvement was primarily due to an increase in revenue from capital grants of approximately \$241,000 for the signal extension projects and facility improvement projects, which were largely completed during the year. Operating and non operating revenue increased by almost \$114,000, offset by an increase in operating expenses of over \$100,000.

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FINANCIAL HIGHLIGHTS AND ANALYSIS (continued)

Statement of Cash Flows

The Statement of Cash Flows provides additional information about KUFM's financial results by reporting the major sources and uses of cash. This statement aids in assessing KUFM's 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:

	2013	2012	2011
CASH PROVIDED BY (USED IN)			
Operating activities	\$(1,455,647)	\$ (958,968)	\$(1,144,767)
Financing activities	1,690,030	1,179,230	1,086,203
Investing activities	(109,357)	3,194	7,124
Net change in cash and cash equivalents	\$ 125,026	\$ 223,456	\$ (51,440)
Cash and cash equivalents – beginning of year	\$ 932,590	\$ 709,134	\$ 760,574
Cash and cash equivalents – end of year	<u>\$ 1,057,616</u>	<u>\$ 932,590</u>	<u>\$ 709,134</u>

Events or developments which occurred during 2013

Specific events or cash transactions that had a significant influence on the increase in cash (a net cash inflow) of approximately \$125,000 during fiscal year 2013 were:

- Cash used in operating activities increased by \$496,000, increasing from \$959,000 cash used in FY12, to \$1,455,000 cash used in FY13. Much of the increase is due to scheduled increases in payments to employees for salaries and benefits, offset only slightly by increases in cash provided by operating revenues.
- Cash provided by financing activities increased by \$511,000 in FY13, or a 43% increase over the prior year. Much of the increase was from \$437,000 of additional cash provided by fund raising efforts in FY13. The remaining increase in cash from financing activities was largely from a \$351,000 decline in cash used to purchase capital assets, offset by a \$277,000 decline in cash provided by capital gifts.
- In FY13, KUFM used \$119,000 of cash to purchase investments, which was offset by \$10,000 of cash received from investment earnings, accounting for the \$109,000 used in investing activities during the year.

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FINANCIAL HIGHLIGHTS AND ANALYSIS (continued)

Events or developments which occurred during 2012

Specific events or cash transactions that had a significant influence on the increase in cash (a net cash inflow) of approximately \$223,000 during fiscal year 2012 were:

- Net cash used in operating activities decreased by 16% from \$1,145,000 to \$959,000, or around \$186,000. This decrease relates primarily to a decrease in cash used for operating expenses over the prior year of \$76,000, coupled with an increase in cash from grants and other operating revenue of \$94,000.
- Cash from financing activities increased by 9%, or \$93,000, from the prior year due primarily to an increase in cash from private gifts and capital grants of \$369,000, which was offset by an increase in cash paid for capital assets of \$319,000.
- Net cash from investing activities decreased during the current year, from \$7,000 to \$3,000, due to less cash available for investing.

ECONOMIC OUTLOOK

- Corporation for Public Broadcasting (CPB) funding comprises approximately 14% of MTPR total revenue. The uncertainty of the Congressional budgeting process makes the federal allocation uncertain. If the sequester of funds continues, MTPR will lose an additional five to seven percent, compounded on last year's sequester of approximately seven percent.
- The US Department of Commerce program (NTIA/PTFP) that funded the projects was eliminated in 2011. Any further infrastructure expansion – or replacement/upgrade projects – must be funded fully by MTPR. Few foundations provide significant funding for infrastructure, complicating the ability to raise capital funds. An updated strategic plan provides a detailed, prioritized list of infrastructure replacement and calls for a designated investment in a major giving officer at the UM Foundation.
- While a new engineering position, shared 50/50 with the UM School of Journalism, was approved in June 2012, the position was not filled until October, 2013. Further staff expansion or changes are identified in the new strategic plan. New positions include a marketing and social media manager and a digital editor. The Broadcast Media Center (BMC) will try to identify internal positions to upgrade and conduct an inventory of the knowledge, skills and abilities of the BMC staff and an evaluation of models to right-size the organization. MTPR personnel cost continues to grow as a percentage of expenses. Maintaining the relatively high number of .5 FTE and resulting health benefit costs continues to be a challenge.
- MTPR took out a \$38,000 Intercap loan in March 2011 to fund the acquisition of membership software, replacing an antiquated custom-designed software program that had reached the end of its usefulness. The four-year term (currently at 1.0%) requires yearly payments of approximately \$8,000 and will be retired in August, 2015.

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FINANCIAL HIGHLIGHTS AND ANALYSIS (continued)

- Streaming of the MTPR signal continues to be successful though relatively stagnant, even with a new website and more robust streaming mechanism. Online listenership consistently approaches 250 simultaneous sessions – a small number compared to on-air listenership – but more ex-patriot Montanans discover the service and pledges from out of state continue to grow. The new MTPR website and streaming are now consolidated with NPR Digital Services.
- A capital campaign to raise \$100,000 to replace strategic reserves used in the FY11/FY12 capital projects faltered at the half-way mark. A successful collaboration with MTPBS in the Flathead area raised capital funds to complete match obligations for federal grants which were completed in 2012. The \$100,000 campaign will be revitalized in 2014/2015 as a goal of the 50th anniversary year of KUFM.
- Recent budget reductions by the University of Montana had a significant impact on MTPR operations and personnel budget. These base-budget cuts are not likely to be restored and will result in increased reliance on membership and philanthropic fundraising.



INDEPENDENT AUDITOR'S REPORT

University of Montana
Missoula, Montana

Report on the Financial Statements

We have audited the accompanying financial statements of KUFM-FM Radio (a public telecommunications entity operated by the University of Montana), as of and for the year ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise KUFM-FM Radio's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

KUFM-FM Radio's 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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 auditor's 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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, financial position of KUFM-FM Radio, as of June 30, 2013 and 2012, and the respective changes in financial position and, where applicable, cash flows thereof 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 management's discussion and analysis on pages 1 through 9, and the schedule of funding status for other post employment benefits for health insurance on page 24, 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

As discussed in Note A to the financial statements, KUFM-FM Radio received \$6,275 and \$8,168, respectively, in in-kind professional fees for the years ended June 30, 2013 and 2012.

Galusha Higgins & Galusha, PC

Missoula, Montana
December 31, 2013

KUFM-FM RADIO
A PUBLIC TELECOMMUNICATIONS ENTITY OPERATED BY
UNIVERSITY OF MONTANA
STATEMENTS OF NET POSITION
June 30

ASSETS		
	2013	2012
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,057,616	\$ 932,590
Accounts receivable, net	133,058	106,350
Due from federal government	1,514	25,031
Prepaid expenses	4,050	2,051
Total current assets	1,196,238	1,066,022
NONCURRENT ASSETS		
Endowment investments	160,943	41,851
Capital assets, net	591,376	600,527
Total noncurrent assets	752,319	642,378
	\$ 1,948,557	\$ 1,708,400
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	\$ 5,477	\$ 125,161
Property held in trust for others	83,894	45,713
Due to primary government	7,611	7,465
Deferred revenue	55,840	73,331
Accrued compensated absences	80,473	80,660
Total current liabilities	233,295	332,330
NONCURRENT LIABILITIES		
Advances from primary government	15,587	23,198
Net OPEB liability	270,546	235,366
Accrued compensated absences	117,297	117,571
Total noncurrent liabilities	403,430	376,135
Total liabilities	636,725	708,465
NET POSITION		
Invested in capital assets, net of related debt	568,178	571,230
Restricted for nonexpendable	168,980	47,034
Unrestricted	574,674	381,671
Total net position	1,311,832	999,935
	\$ 1,948,557	\$ 1,708,400

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

KUFM-FM RADIO
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STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
for the years ended June 30

	2013	2012
OPERATING REVENUES		
State appropriations	\$ 414,708	\$ 406,750
Grants from state agencies	-	5,120
Federal grants and contracts	4,978	6,785
Grants from CPB	273,308	223,554
Contributions from Friends used for operations	-	58,648
Non-governmental grants and contracts	24,498	-
Indirect cost recoveries	321,681	281,900
Other revenue	27,048	31,478
Sales and services of educational departments	3,052	11,974
Total operating revenues	1,069,273	1,026,209
OPERATING EXPENSES		
Program services	1,714,485	1,554,418
Management and general	364,711	362,763
Fundraising	381,514	330,043
Depreciation expense	69,448	71,259
Total operating expenses	2,530,158	2,318,483
OPERATING LOSS	(1,460,885)	(1,292,274)
NONOPERATING REVENUES/(EXPENSES)		
Private gifts	1,651,469	1,206,541
Investment income	9,735	4,739
Interest expense	(360)	(628)
Net nonoperating revenues	1,660,844	1,210,652
OTHER REVENUES		
Capital grants and gifts	111,938	415,893
NET INCREASE IN NET POSITION	311,897	334,271
NET POSITION - Beginning of year	999,935	665,664
NET POSITION - End of year	\$ 1,311,832	\$ 999,935

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

KUFM-FM RADIO
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STATEMENTS OF CASH FLOWS
for the years ended June 30

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
State appropriations	\$ 414,708	\$ 406,750
Grants from state agencies	3,200	5,675
Federal grants and contracts	44,634	4,000
Grants from CPB	197,439	257,587
Nongovernmental grants & contracts	27,711	-
Indirect cost recoveries	321,681	281,900
Contributions from Friends used for operations	-	58,648
Other revenue	27,048	31,478
Sales and services of educational activities	3,052	11,974
Operating expenses	<u>(2,495,120)</u>	<u>(2,016,980)</u>
Net cash used in operating activities	<u>(1,455,647)</u>	<u>(958,968)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Private gifts	<u>1,632,072</u>	<u>1,195,036</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Contributions to endowments	(121,721)	-
Earnings received on investments	12,364	3,194
Net cash (used by)/received from investing activities	<u>(109,357)</u>	<u>3,194</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Cash paid for capital assets	(60,297)	(411,368)
Capital gifts	126,081	403,587
Payments on notes payable	<u>(7,826)</u>	<u>(8,025)</u>
Net cash (used by)/received from capital and related financing activities	<u>57,958</u>	<u>(15,806)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	125,026	223,456
CASH AND CASH EQUIVALENTS - Beginning of year	<u>932,590</u>	<u>709,134</u>
CASH AND CASH EQUIVALENTS - End of year	<u>\$ 1,057,616</u>	<u>\$ 932,590</u>
CASH FLOWS USED IN OPERATING ACTIVITIES		
Operating loss	\$ (1,460,885)	\$ (1,292,274)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	69,448	71,259
In-kind contributions	14,375	16,268
Increase in accounts receivable	(3,366)	(6,819)
(Increase) decrease in prepaid expenses	(1,999)	7,478
Increase (decrease) in accounts payable	(119,685)	89,699
Increase in property held in trust for others	38,180	45,713
Increase in net OPEB liability	35,180	35,854
Increase (decrease) in deferred revenue	(26,434)	38,623
Increase (decrease) in compensated absences	<u>(461)</u>	<u>35,231</u>
Net cash flows used in operating activities	<u>\$ (1,455,647)</u>	<u>\$ (958,968)</u>

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

KUFM-FM RADIO
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NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization. The University of Montana's licensee KUFM-FM Radio (KUFM) is a non-profit public radio station operating from the campus of the University of Montana- Missoula. Currently, KUFM services the Missoula area and parts of Montana (nearly half of the State) which are within the KUFM reception area.

Reporting Entity. The accounting records for KUFM are maintained on a centralized Statewide Accounting, Budgeting and Human Resource System. The accompanying financial statements have been extracted from University funds and other financial information for presentation as a separate entity.

Basis of Presentation. In June 1999, the GASB issued Statement No. 34, Basic Financial Statements and Management Discussion and Analysis for State and Local Governments. This was followed in November 1999, by GASB Statement No. 35, Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities. The State of Montana has implemented GASB Statement No. 34 as of and for the year ended June 30, 2003. As a component unit of the State of Montana, KUFM was also required to adopt GASB Statements No. 34 and No. 35. The latter statement was adopted as amended by GASB Statements No. 37 and No. 38. During the year ended June 30, 2003, KUFM also adopted GASB Statement No. 33, Accounting and Financial Reporting for Non-exchange Transactions.

The financial statements presentation required by Governmental Accounting Standards Board (GASB) No. 34, No. 35 and No. 63/65 provides a comprehensive, entity-wide perspective of KUFM's assets, liabilities, net position, revenues, expenses, changes in net assets, cash flows, and replaces the fund-group perspective previously required. GASB Statements No. 35 and 63/65 require that resources be classified for accounting and reporting purposes into the following four net asset categories:

Invested in capital assets, net of related debt – Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

Restricted, nonexpendable – Net position subject to externally imposed restrictions that require KUFM to maintain those assets permanently. Such assets include KUFM's permanent endowment funds. The endowment funds are made up of cash and investments. Investments are carried at fair market value per Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958.

Restricted, expendable – Net position whose use by KUFM is subject to externally imposed restrictions that can be fulfilled by actions of KUFM pursuant to those restrictions or that expire by the passage of time.

Continued

KUFM-FM RADIO
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NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Unrestricted – Net position that are not subject to externally imposed restrictions. Unrestricted net position may be designated for specific purposes by action of management or the Board of Regents or may otherwise be limited by contractual agreements with outside parties. Substantially all unrestricted net position are designated for academic and research programs and initiatives, and capital programs.

Cash and Cash Equivalents. Cash balances are maintained in pooled funds with other University funds. Cash deficits result from expenditures in excess of allocated cash balances. For purposes of the statement of cash flows, short-term investments are included in cash equivalents. Short-term investments are recorded at cost, which approximates market value. Investments consist of amounts invested through the Montana State Board of Investments using its short-term investment pool.

Grants Receivable. Qualifying expenditures incurred prior to receipts from grants and contracts are accounted for as accounts receivable, due from federal government, or due from primary government depending on the source of the grant or contract.

Deferred Revenue. Receipts from unrestricted gifts and grants are recorded as revenue only to the extent expenses have been incurred for the purpose specified by the donors. Additional amounts are accounted for as deferred revenue until such time as qualifying expenditures have been incurred.

Functional Allocations. Certain expenses relating to instructional functions have been separated from the Radio-TV departmental accounting records to properly reflect the operations of KUFM. Personnel costs are used as a basis to establish percentages for allocation purposes. Similarly, allocations of certain KUFM expenses to programming, management and general, underwriting and fundraising services are based on estimated time which is identifiable with such services.

Revenue Recognition. Revenue from grants and contracts is recognized when qualified expenses are incurred under the grant or contract. Revenue from gifts and in-kind services is recognized when received. Pledges receivable are considered legally unenforceable and are, therefore, not recorded until received.

In-Kind Contributions. Administrative support from the University of Montana consists of allocated institution and physical plant costs incurred by the University on behalf of KUFM. Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted unless the donor has restricted the donated asset to a specific purpose. In 2013 and 2012, KUFM received \$6,275 and \$8,168, respectively, of in-kind professional services. They also received \$8,100 of in-kind services and lease accommodation in both 2013 and 2012.

Continued

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NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Tax-Exempt Status. Since KUFM-FM Radio is a component of the University of Montana (a political subdivision of the State of Montana), it is exempt from federal income taxes under Internal Revenue Code Section 115. 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, 2013 and 2012. The Station believes 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, 2013 or 2012. The Station's income tax positions are subject to examination for the preceding three tax years. Any interest or penalties that may be assessed in the future will be recorded as management and general expenses.

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 assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Capital Assets. Beginning fiscal year 2003, GASB 34 required government entities to record depreciation expense. Property and equipment is stated at cost. Depreciation is computed by the straight-line method over the following estimated useful lives:

<u>Type of Asset</u>	<u>Capitalization Threshold</u>	<u>Useful Life</u>
Buildings	\$ 25,000	40 years
Building improvements	25,000	15 years
Land improvements	25,000	20 years
Infrastructure	500,000	40 years
Equipment		
Furniture	5,000	10 years
Data Processing/Computer Hardware	5,000	5 years
Office equipment	5,000	5 years
Research equipment	5,000	7 years
Other equipment	5,000	10 years
Vehicles	5,000	5 years
Used vehicles	5,000	3 years
Library books and materials	no lower limit	8 years
Intangibles	100,000	4 – 20 years
Software – Internally Generated	500,000	4 years

Continued

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NOTE B CAPITAL ASSETS

Following are the changes in capital assets for the years ended June 30:

	Beginning Balance	Additions	Deletions	Transfers and Other Changes	Ending Balance
2013					
Transmission, antenna & tower	\$ 865,365	\$ -	\$ -	\$ -	\$ 865,365
Studio & broadcast equipment	494,247	41,902	(18,920)	-	517,229
Furniture, fixtures, and other equipment	262,564	-	(27,152)	-	235,412
Construction in progress	-	18,395	-	-	18,395
Total capital assets	<u>1,622,176</u>	<u>60,297</u>	<u>(46,072)</u>	<u>-</u>	<u>1,636,401</u>
Less accumulated depreciation for:					
Transmission, antenna & tower	761,751	16,356	-	-	778,107
Studio & broadcast equipment	220,561	21,766	(18,920)	-	223,407
Furniture, fixtures and other equipment	39,337	31,326	(27,152)	-	43,511
Total accumulated depreciation	<u>1,021,649</u>	<u>69,448</u>	<u>(46,072)</u>	<u>-</u>	<u>1,045,025</u>
Capital assets, net	<u>\$ 600,527</u>	<u>\$ (9,151)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 591,376</u>
2012					
Transmission, antenna & tower	\$ 787,467	\$ 108,134	\$ (30,236)	\$ -	\$ 865,365
Studio & broadcast equipment	263,065	231,182	-	-	494,247
Furniture, fixtures, and other equipment	15,431	247,133	-	-	262,564
Construction in progress	175,081	411,368	(586,449)	-	-
Total capital assets	<u>1,241,044</u>	<u>997,817</u>	<u>(616,685)</u>	<u>-</u>	<u>1,622,176</u>
Less accumulated depreciation for:					
Transmission, antenna & tower	784,778	7,209	(30,236)	-	761,751
Studio & broadcast equipment	180,417	40,144	-	-	220,561
Furniture, fixtures and other equipment	15,431	23,906	-	-	39,337
Total accumulated depreciation	<u>980,626</u>	<u>71,259</u>	<u>(30,236)</u>	<u>-</u>	<u>1,021,649</u>
Capital assets, net	<u>\$ 260,418</u>	<u>\$ 926,558</u>	<u>\$ (586,449)</u>	<u>\$ -</u>	<u>\$ 600,527</u>

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NOTE C ADVANCES FROM PRIMARY GOVERNMENT/DUE TO PRIMARY GOVERNMENT

In March 2011, KUFM-FM Radio entered into an InterCap loan agreement with the Montana Board of Investments for the purchase of new fundraising software. The loan is to be repaid in biannual installments through February 2016.

	2013	2012
InterCap loan payable to Montana Board of Investments, current interest rate of 1.95% adjusted annually, biannual principal and interest payments of \$4,013 due February 15 and August 15 through February 2016.	\$ 23,198	\$ 30,663
Current portion - Due to primary government	(7,611)	(7,465)
	\$ 15,587	\$ 23,198

The five year maturity schedule of advances from primary government is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
InterCap Loan Payable			
2014	\$ 7,611	\$ 415	\$ 8,026
2015	7,760	266	8,026
2016	7,827	114	7,941
	\$23,198	\$ 795	\$23,993

NOTE D EMPLOYEE BENEFIT PLANS

Full-time employees of KUFM-FM Radio, depending on their individual classification, are members of the Public Employees' Retirement System (PERS), Teachers Retirement Systems (TRS) or the Montana University System - Retirement Program (MUS-RP).

PERS and TRS are statewide, cost sharing, multiple employer defined benefit retirement plans. The plans are established under State law and are administered by the State of Montana. The plans provide retirement, disability, and death benefits to plan members and beneficiaries.

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NOTE D EMPLOYEE BENEFIT PLANS, continued

Contribution rates, determined by State law, for 2013 are as follows:

	<u>PERS</u>	<u>TRS</u>	<u>MUS-RP</u>
Employee	7.11%	9.68%	7.03%
Employer	7.22%	9.86%	4.49%

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 or enroll in the MUS-RP 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.

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.

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NOTE D EMPLOYEE BENEFIT PLANS, continued

Montana University System - Retirement Program (MUS-RP). 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 MUS-RP 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 MUS-RP, 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 MUS-RP participants 4.72% was contributed to TRS as employer contributions to amortize past service unfunded liability in accordance with state law. In addition, 2.68% was contributed to PERS from MUS-RP staff employer contributions to amortize past service unfunded liability in accordance with state law.

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.

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 Montana University System – Retirement Program (MUS-RP) (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 \$556 to \$1,051 per month, depending on the level of deductible and other selected plan features. Upon reaching age 65 (Medicare eligibility), monthly participation premiums range from \$278 to \$741 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.

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NOTE D EMPLOYEE BENEFIT PLANS, continued

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, 2013 and June 30, 2012, the University's annual OPEB cost (expense) of \$6,891,306 and \$6,610,366 was equal to the ARC. The actuarial determination was based on plan information as of July 1, 2011. At that time, the number of active participants in the health insurance plan was 3,000.

The total number of inactive (retiree and dependent) participants was 934. During the year ended June 30, 2013 and 2012, the University contributed \$26,525,837 and \$26,217,528 for actively employed participants, whose annual covered payroll totaled \$166,132,779 as of the last actuarial valuation. The University does contribute to the plan for retirees or their dependents.

As of the latest actuarial evaluation, the accrued liability for retiree health benefits was \$48,159,444, 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 \$46,758,324 and \$39,867,018 for 2013 and 2012, respectively. The funded status of the plan as of June 30 was 0% for both years.

The Universities' OPEB obligations for 2013 and 2012 are:

<u>Year ended June 30</u>	<u>2013</u>	<u>2012</u>
Annual required contribution	\$ 5,196,958	\$ 5,196,958
Interest on net OPEB obligation	1,694,348	1,413,408
Annual OPEB cost	6,891,306	6,610,366
Contributions made	<u>-</u>	<u>-</u>
Increase to net OPEB obligation	6,891,306	6,610,366
Net OPEB obligation - beginning of year	39,867,018	<u>33,256,652</u>
Net OPEB obligation - end of year	\$ <u>46,758,324</u>	\$ <u>39,867,018</u>

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June 30, 2013 and 2012

NOTE D EMPLOYEE BENEFIT PLANS, continued

Actuarial Methods and Assumptions. The projected unit credit funding method was used to determine the cost of the University of Montana 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 percentage:	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.

NOTE E RELATED PARTY TRANSACTIONS

KUFM Radio receives non-monetary contributions from the University of Montana for the space and use of the facility. During 2013 and 2012, these contributions totaled \$321,681 and \$281,900, which is equivalent to the amount of indirect plant expense incurred during 2013 and 2012, respectively.

NOTE F COMMITMENTS

Under the terms of an agreement with the Great Falls Public Radio Association (GFPR), KUFM is obligated to pay GFPR either a lump sum amount or monthly payments, as requested by GFPR. Such amounts are limited to total annual donor collections from the GFPR reception area. During 2013 and 2012, such payments totaled \$0 and \$74,000, respectively. GFPR receives substantially all of its programming from KUFM and KUFM has the exclusive right to solicit and collect contributions in the GFPR reception area. The current agreement is in effect through August 30, 2014, with either party having the ability to terminate the agreement at any time upon 60 days written notice.

NOTE G SUBSEQUENT EVENTS

Management has performed an analysis of the activities and transactions subsequent to June 30, 2013 to determine the need for any adjustments to and/or disclosure within the audited financial statements for the year ended June 30, 2013. This analysis has been performed through December 31, 2013, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTAL INFORMATION

KUFM-FM RADIO
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SCHEDULE OF FUNDING STATUS FOR OTHER POST RETIREMENT BENEFITS
FOR HEALTH INSURANCE
June 30, 2013 and 2012

The funded status of the plan as of the actuarial valuations dated July 1 was as follows:

	<u>2009</u>	<u>2011</u>
Actuarial accrued liability (AAL)	\$ 80,475,030	\$ 48,159,444
Actuarial value of plan assets	-	-
Unfunded actuarial accrued liability (UAAL)	<u>\$ 80,475,030</u>	<u>\$ 48,159,444</u>
Funded ratio (actuarial value of plan assets/AAL)	0.00%	0.00%
Covered payroll (active plan members)	\$ 167,395,949	\$ 165,497,391
UAAL as a percentage of covered payroll	48.07%	29.10%

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, 2009</u>	<u>July 1, 2011</u>
Interest/Discount rate	4.25%	4.25%
Projected payroll increases	2.50%	2.50%
Participant Percentage:		
Future retirees assumed to elect coverage at retirement	55.00%	55.00%
Future eligible spouses of future retirees assumed to elect coverage	60.00%	60.00%