FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

MontanaPBS
A PUBLIC TELEVISION ENTITY
OPERATED BY THE MONTANA UNIVERSITY SYSTEM

June 30, 2013 and 2012

MontanaPBS
A PUBLIC TELEVISION ENTITY
OPERATED BY THE MONTANA UNIVERSITY SYSTEM
June 30, 2013 and 2012

CONTENTS

INTRODUCTION

The management's discussion and analysis (MD&A) introduces the basic financial statements and provides an overview of MontanaPBS's financial position and activities for the fiscal years ended June 30, 2013 and 2012. 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. Because 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 footnotes following this section.

MontanaPBS (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 MontanaPBS, Inc. ("Friends"), is a not-for-profit Montana corporation that advises, provides financial support, promotes positive community relations and provides certain administrative services to MontanaPBS. Readers may also wish to refer to the separately issued financial statements of Friends for further information.

USING THE FINANCIAL STATEMENTS

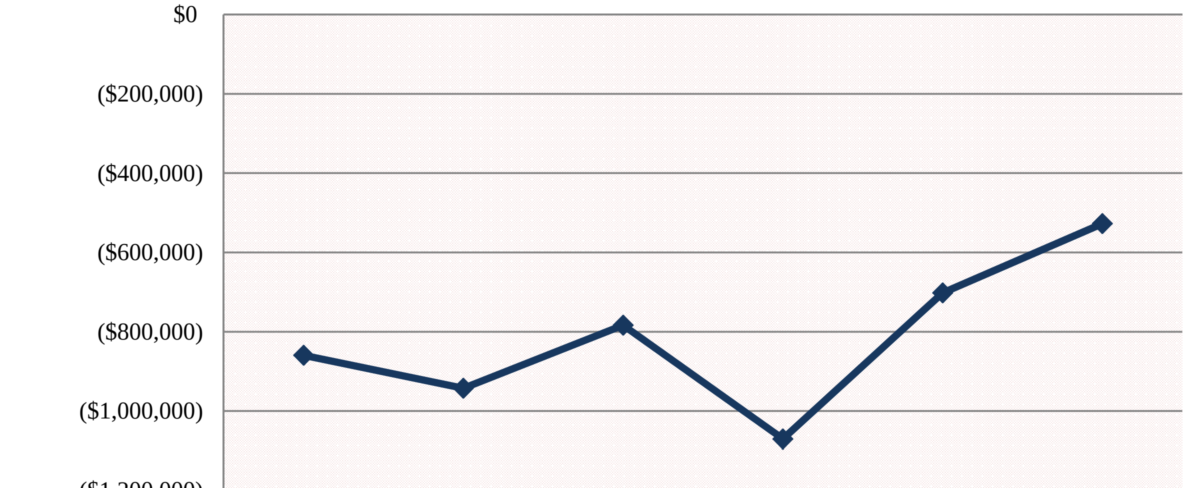
Pursuant to GASB Statement No. 35, the basic financial statements consist of the Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position; the Statement of Cash Flows; and the notes to the financial statements. In addition to the financial statements, the MD&A is included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

FINANCIAL HIGHLIGHTS AND ANALYSIS

During fiscal year 2013, the Station experienced a slight decrease in its overall financial position. This decrease was largely due to operating expenses exceeding operating revenues. As compared with 2012, operating expenses increased by $200,975, or approximately 3.60% primarily due to an increase in PBS dues. On a positive note, operating revenues increased by $375,616, or approximately 7.69%, primarily due to an increase in the donations received from the MSU Alumni Foundation, a onetime major donation received from the Friends of MontanaPBS for specific operating needs, and by an increase in Grants from CPB. In 2012, operating revenues increased by $247,000 or approximately 5.3% as compared with 2011, mainly from an increase in underwriting and operating expenses and decreased by $120,888, or approximately 2.1%, primarily due to a decrease in the costs associated with Broadcasting.

FINANCIAL HIGHLIGHTS AND ANALYSIS (continued)



	FY08	FY09	FY10	FY11	FY12	FY13
Operating Loss	$(859,400)	$(942,506)	$(783,522)	$(1,070,103)	$(701,915)	$(527,274)

Statement of Net Position

The Statement of Net Position reflects the financial position of MontanaPBS as of the end of the fiscal year. 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.

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

	2013	2012	2011
ASSETS			
Total current assets	$ 1,132,480	$ 783,513	$ 554,091
Capital assets, net	3,307,203	3,575,497	3,826,810
Total other non-current assets	55,724	26,831	24,659
Total Assets	$ 4,495,407	$ 4,385,841	$4,405,560
LIABILITIES			
Total current liabilities	$ 351,544	$ 446,672	$ 370,918
Total non-current liabilities	602,814	538,181	422,626
Total Liabilities	954,358	984,853	793,544
NET POSITION			
Invested in capital assets, net of related debt	3,303,156	3,568,234	4,020,212
Unrestricted	133,161	(168,861)	(39,689)
Restricted	104,732	1,615	-
Total Net Position	3,541,049	3,400,988	3,980,523
Total Liabilities and Net Position	$ 4,495,407	$ 4,385,841	$4,774,067

FINANCIAL HIGHLIGHTS AND ANALYSIS (continued)

Events or developments which occurred during 2013 include:

- Current assets increased by $348,967 due largely to an increase in cash and cash equivalents generated primarily by increased contributions received from the Friends of MontanaPBS for specific operating needs. This increase was further exaggerated by a prior year reduction of cash and cash equivalents in the amount of $168,729 which represented money spent on the Kalispell grant that was not yet received. Accounts receivable decreased $143,298 for funds due from granting agencies.

- The net decrease in capital assets of $268,294 is due primarily to current year depreciation expense and equipment disposals of $746,935, which exceeded current year acquisitions. Increases to capital assets included the addition of $468,033 in broadcasting and transmission equipment for the PBS Warning, Alert, and Response Network Grant.

- The decrease in total liabilities of $30,495 is attributed primarily to a decrease in current liabilities of $95,128. This decrease was largely due to a reduction in grant deferred revenue. The increase in the liability for other post-employment benefits (OPEB) of $78,572, which was recorded as required by GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, *caused an increase in long-term liabilities*. The net OPEB liability reflects the implicit rate subsidy associated with post-employment benefits other than pensions.

Events or developments which occurred during 2012 include:

- Current assets increased by $229,422 due largely to accounts receivable of $220,034 for funds due from granting agencies. Other changes to current assets include a decrease in cash and cash equivalents of $57,551, due in part to the excess cost of capital assets purchased over capital contributions received in FY12, and an increase in prepaid expenses of $38,364; $33,872 of which was a prepayment made by Missoula on a long term lease agreement for broadcast transmission tower usage and building space.

- The net decrease in capital assets of $251,313 is due primarily to current year depreciation expense and equipment disposals of $702,200, which exceeded current year acquisitions. Increases to capital assets included the addition of $489,717 in broadcasting and transmission equipment at the new Kalispell signal extension location.

- The increase in total liabilities of $71,793 is attributed primarily to an increase in the liability for other post-employment benefits (OPEB) of $74,616, which was recorded 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.

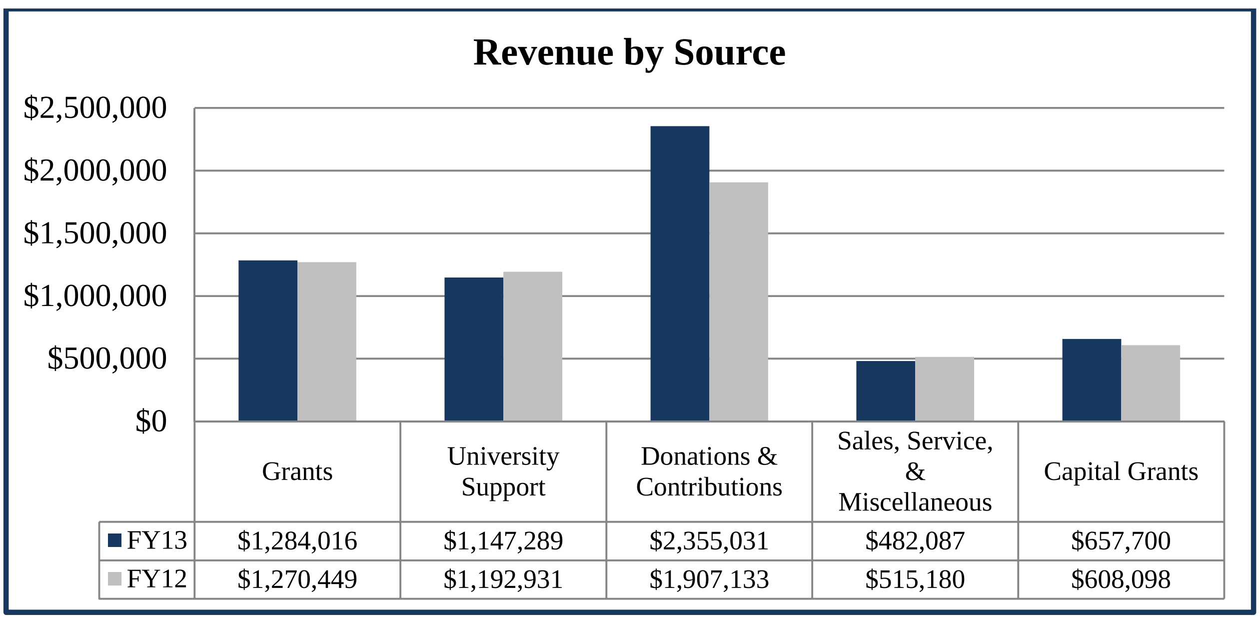
Statement of Revenues, Expenses and Changes in Net Position

The Statement of Revenues, Expenses and Changes in Net Position 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 Position is as follows at June 30:

	2013	2012	2011
Operating revenue	$ 5,258,381	$ 4,882,765	$4,635,465
Operating expenses	5,785,655	5,584,680	5,705,568
Operating loss	(527,274)	(701,915)	(1,070,103)
Non-operating revenues	659,966	611,026	583,131
Loss before other revenues/expense	132,692	(90,889)	(486,972)
Other expense - Interest Expense	7,369	(623)	(1,051)
Net decrease in net position	140,061	(91,512)	(488,023)
Net position, beginning of year	3,400,988	3,492,500	3,980,523
Net position, end of year	$ 3,541,049	$ 3,400,988	$3,492,500

The following chart provides a graphical representation of revenues by source for fiscal years 2013 and 2012:



Events or developments which occurred during 2013 include:

- In FY13, Operating revenues increased by approximately 7.69%, or $375,616, largely from an increase in contributions from Friends revenue, and other contributions which saw an increase from donations made by the MSU Foundation and grants from CPB of $228,564, $155,534 and $64,435, respectively.

- Total operating expenses increased by $200,975 due primarily to an $182,820 increase in programming and production expenses resulting primarily from the increase in Public Broadcasting Dues. The increase in programming and production was offset by a $41,652 decrease in solicitation and underwriting and an increase of $52,784 in broadcasting expenses.

- The Station received capital grants and gifts of $657,700 in FY 13 to help fund major capital projects.

- 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, public broadcasting dues and other occupancy costs as well as depreciation and amortization.

Events or developments which occurred during 2012 include:

- In FY12, Operating revenues increased by approximately 5.3% , or $247,300, largely from an increase in production and underwriting revenue, and grants from CPB of $155,669 and $65,349, respectively.

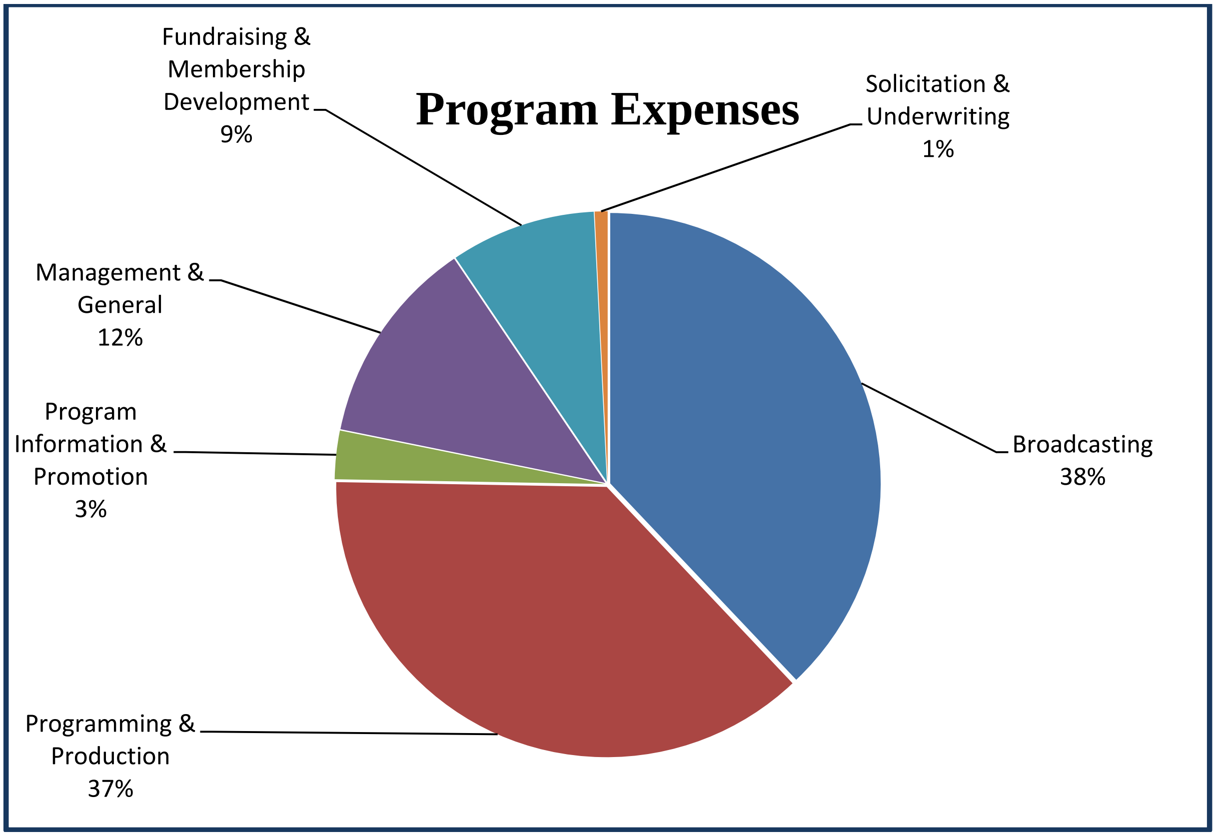
- Total operating expenses decreased by $120,888 due primarily to a $256,598 decrease in broadcasting expenses. In the FY11 the station had incurred higher than usual legal fees associated with obtaining a new license and higher costs incurred from the completion several capital projects. The decrease in broadcast expenses was offset by a $164,000 increase in programming and production costs and a decrease of $88,644 in management and general expenses.

- The Station received capital grants and gifts of $608,098 in FY 12 to help fund major capital projects.

- 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.

FINANCIAL HIGHLIGHTS AND ANALYSIS (continued)

The following chart provides a graphical representation of each program expense as a percentage of total operating expenses for fiscal year 2013:



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:

	2013	2012	2011
CASH PROVIDED BY (USED IN)			
Operating activities	$ 322,330	$ 90,034	$ 19,325
Financing activities	168,936	(150,540)	(98,294)
Investing activities	1,833	2,955	2,424
Net change in cash and cash equivalents	493,099	(57,551)	(76,545)
Cash and cash equivalents – beginning of year	449,250	506,801	583,346
Cash and cash equivalents – end of year	$ 942,349	$ 449,250	$ 506,801

FINANCIAL HIGHLIGHTS AND ANALYSIS (continued)

Events or developments which occurred during 2013 include:

- Cash provided by operating activities totaled $322,330, in 2013. The operating loss on an accrual basis of $527,274 is adjusted for noncash operating expenses, primarily depreciation expense of $752,183, the Annual Required Contribution to the OPEB liability of $87,572, and a decrease in accounts and grants receivable of $139,569 to arrive at cash provided by operating activities.

- Capital and related financing activities provided $168,936 in cash. This net cash inflow was due to purchases of capital assets of $458,900 offset by $657,700 in capital grants received during the year.

Events or developments which occurred during 2012 include:

- Cash provided by operating activities totaled $103,134, in 2012. The operating loss on an accrual basis of $701,915 is adjusted for noncash operating expenses, primarily depreciation expense of $818,158, and the Annual Required Contribution to the OPEB liability of $74,616, to arrive at cash provided by operating activities.

- Capital and related financing activities used $151,047 in cash. This net cash outflow was due to purchases of capital assets of $568,666 offset by $421,421 in capital grants received during the year.

ECONOMIC OUTLOOK

- As economic conditions continue to slowly rebound, station management remains focused on strengthening philanthropic giving and maintaining sustainable operating budgets. Service expansion efforts in recent years have led to a significant increase in audience, with access now encompassing most of the state and all of Montana's major population centers. This increased audience creates opportunity for development growth.

- The stations are actively engaged in system initiatives to improve performance in all areas of development. Station management believes improvement in net development revenues can be achieved in the coming years through adoption of best practices focused on both gross revenue and efficiency. Additionally, early success in a fledgling major and planned giving initiative shows great promise for additional, sustainable revenue.

- Station operating budgets have seen recent stress from a number of areas, including dramatic increases in PBS member dues and a loss of revenue due to federal budget cuts, and cuts in university support due to budget shortfalls within the University of Montana. Negative impacts of these dramatic changes were mitigated through the short term use of available funds and are being absorbed into stations budgets going forward. While these factors have stabilized, they will remain at or near current levels for the foreseeable future.

- Station management remains concerned about future stability of federal funding, as well as overall public television system health. Negative effects of either reduced federal support, or strains on the system from within can all negatively impact MontanaPBS's service.

- Station management has concerns about the unknown impact of recent changes in health care, as they could have a dramatic effect on the makeup of university and state benefits programs. If employer costs for these programs increase, operating budgets may be negatively impacted.

- All said, MontanaPBS' current financial position is positive and management remains optimistic that the organization is positioned for continued growth, improved service, and financial stability.

GALUSHA HIGGINS & GALUSHA PC
EST. 1919
A PROFESSIONAL CORPORATION OF CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

101 East Front, Suite 301, Missoula, MT 59802
P.O. Box 8867, Missoula, MT 59807

Phone (406) 728-1800
Fax (406) 721-2431

www.ghg-cpa.com

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of MontanaPBS (Station), a Public Television Entity operated by the Montana University System as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise MontanaPBS's basic financial statements as listed in the table of contents. We did not audit the financial statements of Friends of MontanaPBS, 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 MontanaPBS, Inc. is based on the report of the other auditors.

Management's Responsibility for the Financial Statements

MontanaPBS'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 an opinion on these financial statements based on our audits. 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, based on our audits and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of MontanaPBS as of June 30, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and schedule of funding status for other post retirement benefits for health insurance be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise MontanaPBS's basic financial statements. The supplemental information presented on pages 33 through 37 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental information on pages 33 through 37 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplemental information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Galusha Higgins & Galusha, PC

Missoula, Montana
December 20, 2013

MontanaPBS
A PUBLIC TELEVISION ENTITY OPERATED BY
THE MONTANA UNIVERSITY SYSTEM
STATEMENTS OF NET POSITION
June 30

	2013	2012
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	**$ 942,349**	$ 449,250
Accounts receivable	**34,420**	30,692
Grants receivable	**83,918**	227,216
Prepaid expenses	**71,793**	76,355
Total current assets	**1,132,480**	783,513
CAPITAL ASSETS, Net of accumulated depreciation - Note C	**3,307,203**	3,575,497
NONCURRENT ASSETS		
Prepaid expenses	**7,361**	12,920
Restricted investment held by trustee	**48,363**	13,911
Total noncurrent assets	**55,724**	26,831
Total assets	**$ 4,495,407**	$ 4,385,841
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	**$ 54,213**	$ 74,010
Deferred revenue	**147,428**	206,985
Current portion, compensated absences	**146,455**	162,461
Current portion, capital lease obligations	**3,448**	3,216
Total current liabilities	**351,544**	446,672
NONCURRENT LIABILITIES		
Compensated absences, net of current portion	**97,723**	108,214
Capital lease, net of current portion	**599**	4,047
Net OPEB obligation	**504,492**	425,920
Total noncurrent liabilities	**602,814**	538,181
Total liabilities	**954,358**	984,853
NET POSITION		
Invested in capital assets, net of related debt	**3,303,156**	3,568,234
Unrestricted	**133,161**	(168,861)
Restricted - expendable	**95,000**	-
Restricted - nonexpendable	**9,732**	1,615
Total net position	**3,541,049**	3,400,988
Total liabilities and net position	**$ 4,495,407**	$ 4,385,841

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

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

	2013	2012
CURRENT ASSETS		
Cash and cash equivalents	**$ 80,334**	$ 92,275
Restricted cash	**671,990**	681,826
Restricted certificates of deposit	**241,615**	402,099
Restricted investment in mutual fund	**210,076**	53,207
Prepaid expense	**9,489**	1,779
Premium inventory	**5,334**	3,992
Due from affiliate	**-**	7,782
Interest receivable - restricted	**-**	1,874
Total assets	**$ 1,218,838**	$ 1,244,834
LIABILITIES		
Accounts payable	**$ 11,156**	$ 3,389
Due to affiliate	**-**	14,556
Deferred revenue	**4,885**	-
Total liabilities	**16,041**	17,945
NET ASSETS		
Unrestricted	**79,116**	88,064
Temporarily restricted	**1,123,681**	1,138,825
Total net assets	**1,202,797**	1,226,889
Total liabilities and net assets	**$ 1,218,838**	$ 1,244,834

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

MontanaPBS
A PUBLIC TELEVISION ENTITY OPERATED BY
THE MONTANA UNIVERSITY SYSTEM

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

for the years ended June 30

	2013	2012
OPERATING REVENUES		
Grants from CPB	**$ 1,026,947**	$ 962,512
Grants from state agencies	**190,000**	190,000
Grants from public broadcasting entities	**18,103**	35,756
State and local grants and contracts	**11,136**	23,586
Nongovernmental grants and contracts	**37,830**	58,595
Support from the Montana University System		
Appropriations for operations	**1,147,289**	1,192,931
Donated and indirect	**913,963**	853,740
Contributions from Friends used for operations	**1,153,953**	925,389
Sales and services	**60,575**	98,714
Production underwriting	**127,796**	193,226
Program underwriting	**89,021**	93,220
Other contributions	**190,318**	34,784
Other operating revenue	**291,450**	220,312
Total operating revenues	**5,258,381**	4,882,765
OPERATING EXPENSES		
Broadcasting	**2,160,278**	2,142,057
Programming and production	**2,189,865**	1,977,864
Program information and promotion	**167,763**	196,181
Management and general	**721,007**	706,001
Fundraising and membership development	**502,010**	476,193
Solicitation and underwriting	**44,732**	86,384
Total operating expenses	**5,785,655**	5,584,680
OPERATING LOSS	**(527,274)**	(701,915)
NONOPERATING REVENUES		
Federal grants and contracts for capital projects	**583,639**	444,539
Contributions from friends for capital	**74,061**	160,559
Other capital grants and gifts	**-**	3,000
Investment income, net	**2,266**	2,928
Total nonoperating revenues	**659,966**	611,026
OTHER REVENUES, EXPENSES, GAINS AND LOSSES		
Interest Expense	**(407)**	(623)
Additions to permanent endowments	**7,776**	-
Total other revenues, expenses, gains and losses	**7,369**	(623)
CHANGE IN NET POSITION	**140,061**	(91,512)
NET POSITION - Beginning of year	**3,400,988**	3,492,500
NET POSITION - End of year	**$ 3,541,049**	$ 3,400,988

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

FRIENDS OF MontanaPBS, INC.
A COMPONENT UNIT OF MONTANA PBS/KUSM TV/KUFM TV
STATEMENT OF ACTIVITIES
for the year ended June 30, 2013

	Unrestricted	Temporarily Restricted	Totals
REVENUE AND SUPPORT			
Donations - unrestricted	$ 430,192	$ -	$ 430,192
Donations - restricted	-	362,518	362,518
Membership dues	725,690	-	725,690
Interest and dividend income	88	3,023	3,111
Realized gain on investment	-	1,490	1,490
Unrealized gain on investment	-	4,629	4,629
Satisfaction of program requirements	386,804	(386,804)	-
Total support	1,542,774	(15,144)	1,527,630
EXPENSES			
Program Services: Payments to affiliates:			
KUSM Television per contract	750,504	-	750,504
KUFM Television per contract	187,625	-	187,625
KUFM Television programming support	55,000		55,000
KUSM Television programming support	54,960		54,960
Additional support for operations	190,000		190,000
Equipment - major	74,061		74,061
Equipment - minor	2,656	-	2,656
Total payments to affiliates	1,314,806	-	1,314,806
Other program services:			
Program guide costs	22,843	-	22,843
Program guide mail preparation	27,005	-	27,005
Program guide postage	26,345	-	26,345
Total program services	76,193	-	76,193
Fundraising:			
Credit card and bank fees	16,900	-	16,900
Governmental affairs	587	-	587
Pledge drive premiums and support	99,030	-	99,030
Postage and direct mail preparation	803	-	803
Promotion and promotional premiums	5,584	-	5,584
Total fundraising	122,904	-	122,904
Management and administrative:			
Accounting and bookkeeping services	11,821	-	11,821
Contracted services	9,717	-	9,717
Insurance	1,754	-	1,754
Met Net	1,358	-	1,358
Miscellaneous	489	-	489
Travel and conferences	12,680	-	12,680
Total management and administration	37,819	-	37,819
Total expenses	1,551,722	-	1,551,722
Change in Net Assets	(8,948)	(15,144)	(24,092)
Net assets at beginning of year	88,064	1,138,825	1,226,889
NET ASSETS AT END OF YEAR	$ 79,116	$1,123,681	$ 1,202,797

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

FRIENDS OF MontanaPBS, INC.
A COMPONENT UNIT OF MONTANA PBS/KUSM TV/KUFM TV
STATEMENT OF ACTIVITIES
for the year ended June 30, 2012

	Unrestricted	Temporarily Restricted	Totals
REVENUE AND SUPPORT			
Donations - unrestricted	$ 622,456	$ -	$ 622,456
Donations - restricted	-	517,475	517,475
Membership dues	553,920	-	553,920
Interest and dividend income	164	9,166	9,330
Realized loss on investment	-	(20)	(20)
Unrealized loss on investment	-	(613)	(613)
Satisfaction of program requirements	271,152	(271,152)	-
Total support	1,447,692	254,856	1,702,548
EXPENSES			
Payments to affiliates:			
KUSM Television per contract	768,338	-	768,338
KUFM Television per contract	192,084	-	192,084
Equipment - major	160,559	-	160,559
Total payments to affiliates	1,120,981	-	1,120,981
Program services:			
Lecture series costs	425	-	425
Freedom Riders costs	4,000	-	4,000
Program guide costs	21,597	-	21,597
Program guide mail preparation	15,371	-	15,371
Program guide postage	20,782	-	20,782
Total program services	62,175	-	62,175
Fundraising:			
Credit card and bank fees	18,677	-	18,677
Governmental affairs	1,213	-	1,213
Pledge drive premiums and support	111,660	-	111,660
Postage and direct mail preparation	363	-	363
Promotion and promotional premiums	5,802	-	5,802
Total fundraising	137,715	-	137,715
Management and administrative:			
Accounting and bookkeeping services	12,336	-	12,336
Contracted services	104,327	-	104,327
Insurance	1,754	-	1,754
Met Net	1,000	-	1,000
Miscellaneous	640	-	640
Travel and conferences	4,558	-	4,558
Volunteer support	341	-	341
Total management and administration	124,956	-	124,956
Total expenses	1,445,827	-	1,445,827
Change in Net Assets	1,865	254,856	256,721
Net assets at beginning of year	86,199	883,969	970,168
NET ASSETS AT END OF YEAR	$ 88,064	$1,138,825	$ 1,226,889

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

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

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from grantors	**$ 1,812,688**	$ 1,639,105
Receipts from others	**2,548,473**	2,237,429
Compensation and benefits	**(1,985,907)**	(1,978,149)
Other operating expenses	**(2,052,924)**	(1,808,350)
Net cash from operating activities	**322,330**	90,035
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES		
Redemption of investments	**(26,242)**	506
Net cash from noncapital and related financing activities	**(26,242)**	506
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	**(458,900)**	(568,666)
Cash received from capital grants and contributions	**657,700**	421,241
Principal and interest paid on long-term debt	**(3,622)**	(3,622)
Net cash from capital and related financing activities	**195,178**	(151,047)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	**1,833**	2,955
NET CHANGE IN CASH AND CASH EQUIVALENTS	**493,099**	(57,551)
CASH AND CASH EQUIVALENTS - Beginning of year	**449,250**	506,801
CASH AND CASH EQUIVALENTS - End of year	**$ 942,349**	$ 449,250
RECONCILIATION OF OPERATING LOSS TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating loss	**$ (527,274)**	$ (701,915)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	**752,185**	818,158
Loss on disposal of assets	**-**	1,821
In-kind contribution	**(24,989)**	3,000
(Increase) decrease in assets		
Accounts and grants receivable	**139,565**	(50,895)
Prepaid expenses	**10,122**	(41,070)
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	**(19,797)**	26,652
Compensated absences	**(26,498)**	(19,287)
Deferred grants and revenue	**(59,556)**	(21,046)
Change in net OPEB obligation	**78,572**	74,617
Net cash flows from operating activities	**$ 322,330**	$ 90,035

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

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

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	**$ (24,092)**	$ 256,721
Adjustments to reconcile change in net assets to		
net cash from operating activities:		
Unrealized (gain) loss on investment	**(4,629)**	613
Realized (gain) loss on investment	**(1,490)**	20
(Increase) decrease in:		
Prepaid expense	**(7,710)**	6,072
Interest receivable	**1,874**	(1,812)
Premium inventory	**(1,342)**	2,266
Due from affiliate	**7,782**	(7,782)
Increase (decrease) in:		
Accounts payable	**7,767**	(864)
Due to affiliate	**(14,556)**	14,556
Deferred revenue	**4,885**	-
Cash flows from operating activities	**(31,511)**	269,790
CASH FLOWS FROM INVESTING ACTIVITIES		
Net proceeds from (purchases of) certificates of deposit	**160,484**	(247,000)
Net proceeds from (purchases of) mutual fund	**(150,750)**	881
Cash flows from investing activities	**9,734**	(246,119)
NET CHANGE IN CASH AND CASH EQUIVALENTS	**(21,777)**	23,671
CASH AND CASH EQUIVALENTS - Beginning of year	**774,101**	750,430
CASH AND CASH EQUIVALENTS - End of year	**$ 752,324**	$ 774,101
Cash and cash equivalents - unrestricted	**$ 80,334**	$ 92,275
Cash and cash equivalents - restricted	**671,990**	681,826
Totals	**$ 752,324**	$ 774,101

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

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization. MontanaPBS (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, KUGF TV, Great Falls, a fourth full-power station and KUKL TV, Kalispell, a fifth 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, 2013, 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 MontanaPBS, Inc. (“Friends”), a not-for-profit Montana corporation, that advises and provides financial support, positive community relations, and related administrative services to MontanaPBS.

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 MontanaPBS, 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 MontanaPBS, Inc. at P. O. Box 10715, Bozeman, MT 59719-0715.

Continued

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--an 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, No. 38 and No. 63, the Station is required to present a statement of net position classified between current and noncurrent assets and liabilities, a statement of revenues, expenses and changes in net position, 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 position 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 MontanaPBS 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

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.

Net Position. The Station's net position is 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 net position: The component of net position that reports the constraints placed on the use of net assets by either external parties or enabling legislation.

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

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

Continued

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, 2013, the Stations have recorded deferred revenue related to these grants and contracts of $147,428.

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. MontanaPBS 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

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, 2013 and 2012. 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, 2013.

The Friends of MontanaPBS, 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

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 MontanaPBS 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, 2013 is summarized below:

	Beginning Balance	Additions	Disposal	Ending Balance
Studio and broadcast equipment	$ 4,155,669	$ 408,490	$(5,249)	$ 4,558,910
Production equipment	2,197,625	15,857	-	2,213,482
Vehicles	20,874	-	-	20,874
Software	13,528	-	-	13,528
Office machines	15,245	-	-	15,245
Transmission, antenna & tower	4,675,107	59,543	-	4,734,650
Accumulated depreciation	(7,502,551)	(752,184)	5,249	(8,249,486)
Total capital assets, net	$ 3,575,497	$(268,294)	$ -	$ 3,307,203

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 documentary was fully amortized as of June 30, 2013, and is included in studio and broadcast assets above.

Continued

NOTE D LONG TERM LIABILITIES

The following is a summary of the changes in noncurrent liabilities for the year ended June 30, 2013:

	Balance July 1, 2012	Additions	Reductions	**Balance June 30, 2013**	Due in One Year
OPEB	$ 425,920	$ 78,572	$ -	**$ 504,492**	$ -
Compensated absences	270,675	-	26,497	**244,178**	146,455
Capital leases	7,263	-	3,216	**4,047**	3,448
	$ 703,858	$ 78,572	$ 29,713	**$ 752,717**	$ 149,903

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, 2013:

	Capital Lease Obligation	
	Principal	Interest
2014	3,448	174
2015	599	5
	$ 4,047	$ 179

NOTE E OPERATING LEASES

LESSEE OPERATING LEASES: MontanaPBS had the following operating leases in effect as of June 30, 2013 and 2012 in which MontanaPBS is considered the lessee:

Telecommunication Lease. During the fiscal year ended June 30, 1997, the University of Montana, on behalf of MontanaPBS, 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. In June 2012, the lessor terminated this agreement.

Satellite Transponder Lease. During the year ended June 30, 2004, Montana State University, on behalf of MontanaPBS, 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 $12,965 due each month through September 2015.

Continued

NOTE E OPERATING LEASES, continued

The future minimum obligations under the satellite transponder lease as of June 30, 2013, are as follows:

For Years Ending June 30:

2014	$	155,580
2015		38,895
Total	$	194,475

Rental Activity. Rental Activity, including amortization of prepaid rent, for the year ended June 30, 2013 is as follows:

Satellite transponder lease	$ 155,580

LESSOR OPERATING LEASES: MontanaPBS had the following operating leases in effect as of June 30, 2013 and 2012 in which MontanaPBS is considered the lessor:

Education Broadband Lease. During the fiscal year ended June 30, 2008, Montana State University, on behalf of MontanaPBS, entered into a 30-year lease agreement with Digital Bridge Spectrum Corporation to operate two Educational Broadband Services (EBS) in the Bozeman market. In February 2010, KUSM entered into a second agreement to operate one EBS in the Great Falls market. At the beginning of the fiscal year, these lease agreements were transferred to SpeedConnect.

The following is a schedule of the future minimum lease payments to be received under these leases for the next five years:

For Years Ending June 30:

2014	$	51,291
2015		52,706
2016		54,166
2017		55,675
2018		57,219
Total	$	271,057

Continued

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, 2013 were equal to the required contributions for the year:

	PERS	TRS	ORP
KUSM TV	$ 23,514	$ 22,070	$ 40,713
KUFM TV	$ 16,631	$ -	$ 6,062

Following is a schedule of required contributions to the plan:

	Contributions (as a percentage of salary)	
	Employee	Employer
Public Employees' Retirement System (PERS)	7.110%	7.220%
Teacher's Retirement System (TRS)	9.680%	9.860%
Optional Retirement Program (ORP)	7.030%	4.490%

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

Continued

NOTE F EMPLOYEE BENEFIT PLANS, continued

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.

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 2.68% was contributed to TRS as employer contributions to amortize past service unfunded liability in accordance with State law.

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

Continued

NOTE F EMPLOYEE BENEFIT PLANS, continued

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 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 $556 — $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 $263 — $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.

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 universities' combined annual OPEB cost (expense) of $13,435,643 and $14,513,180 was equal to the ARC. The actuarial determination was based on plan information as of July 1, 2013. At that time, the number of active participants in the health insurance plan was 6,536.

The total number of inactive (retiree and dependent) participants was 1,998. During the year ended June 30, 2013 and 2012, the Universities contributed $58,035,434 and $57,224,269 for actively employed participants, whose annual covered payroll totaled $350,002,996 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 $103,580,683, 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 $87,896,628 and

Continued

NOTE F EMPLOYEE BENEFIT PLANS, continued

$87,896,628 for 2013 and 2012 respectively. The funded status of the plan as of June 30 was 0% for both years.

The Universities' OPEB obligation are:

Year ended June 30	2013	2012
Annual required contribution	**$ 13,435,643**	$ 13,099,772
Interest on net OPEB obligation	**1,694,348**	1,413,408
Adjustment to annual required contribution	**-**	-
Annual OPEB cost	**15,129,991**	14,513,180
Contributions made	**-**	-
Increase to net OPEB obligation	**15,129,991**	14,513,180
Net OPEB obligation - beginning of year	**87,896,628**	73,383,448
Net OPEB obligation - end of year	**$ 103,026,619**	$ 87,896,628

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.

Continued

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 MontanaPBS, 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.

MontanaPBS 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 MontanaPBS 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.

Federal Interest Period. MontanaPBS has received considerable grant funding over the years from the NTIA/PTFP program in the U.S. Department of Commerce (DOC). The grant mandates a 10-year interest period in all equipment purchased with federal funds during which the station(s) must operate the equipment in compliance with the grant objectives or risk losing the physical assets to repossession. The station(s) last NTIA/PTFP grant (to KUSM – MSU) closed in December 2010. The 10-year requirement will be fulfilled in 2021.

NOTE H RELATED PARTY TRANSACTIONS

During the year ended June 30, 2013, the Stations received monetary support from Friends of MontanaPBS, Inc. as disclosed in the statements.

Continued

NOTE I IN-KIND CONTRIBUTIONS

The following in-kind contributions were recorded in MontanaPBS's financial statements for the year ended June 30, 2013:

University indirect administrative support and occupancy	$ 913,963
In-kind donations of capital equipment	24,989
In-kind services provided by program sponsors	35,387
Total	$ 974,339

NOTE J 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 20, 2013, 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.

Concluded

REQUIRED SUPPLEMENTAL INFORMATION

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, 2009 and 2011 were as follows:

	2009	2011
Actuarial accrued liability (AAL)	$ 173,109,813	$ 103,580,683
Actuarial value of plan assets	-	-
Unfunded actuarial accrued liability (UAAL)	$ 173,109,813	$ 103,580,683
Funded percentage (actuarial value of plan assets/AAL)	0.00%	0.00%
Covered payroll (active plan members)	$ 366,087,478	$ 349,367,608
UAAL as a percentage of covered payroll	47.29%	29.65%

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:

Actuarial Valuation Date	2009	2011
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%

MontanaPBS
A PUBLIC TELEVISION ENTITY
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	2013 Total Expenses	2012 Total Expenses
Salaries and benefits	$ 703,683	$ 642,610	$ 62,995	$ 1,409,288	$ 377,339	$ 195,002	$ 26,031	$ 2,007,660	$ 2,016,286
Services	114,524	108,340	38,138	261,002	24,672	135,514	41	421,229	415,103
Supplies	195,217	128,340	14,006	337,563	23,173	2,033	213	362,982	274,349
Communications	167,149	44,778	1,360	213,287	16,819	31,984	208	262,298	256,230
Travel	18,431	51,244	2,535	72,210	20,039	6,694	3,083	102,026	125,143
Rent	14,595	14,502	250	29,347	3,261	925	-	33,533	43,815
Repair and maintenance	39,510	12,436	-	51,946	5,665	-	-	57,611	59,183
Public broadcasting dues	-	669,474	-	669,474	-	-	-	669,474	552,340
Other	348,702	359,196	48,479	756,377	215,267	129,858	15,156	1,116,658	1,027,454
Depreciation and amortization	558,467	158,945	-	717,412	34,772	-	-	752,184	814,777
Total operating expenses	$ 2,160,278	$ 2,189,865	$ 167,763	$ 4,517,906	$ 721,007	$ 502,010	$ 44,732	$ 5,785,655	$ 5,584,680

MontanaPBS
A PUBLIC TELEVISION ENTITY OPERATED BY
THE MONTANA UNIVERSITY SYSTEM
COMBINING SCHEDULE OF NET POSITION
June 30, 2013

ASSETS	KUSM	KUFM	Total
CURRENT ASSETS			
Cash and cash equivalents	$ 768,200	$ 174,149	$ 942,349
Accounts receivable	21,266	13,154	34,420
Grants receivable	83,918	-	83,918
Prepaid expenses	35,030	36,763	71,793
Total current assets	908,414	224,066	1,132,480
CAPITAL ASSETS			
Studio and broadcast equipment	2,836,788	1,722,122	4,558,910
Production equipment	2,213,482	-	2,213,482
Vehicles	20,874	-	20,874
Software	13,528	-	13,528
Office machines	15,245	-	15,245
Transmission, antenna, tower	3,916,901	817,749	4,734,650
Accumulated depreciation	(6,670,358)	(1,579,128)	(8,249,486)
Total capital assets	2,346,460	960,743	3,307,203
NONCURRENT ASSETS			
Prepaid expenses	7,361	-	7,361
Restricted investment held by trustee	38,840	9,523	48,363
Total noncurrent assets	46,201	9,523	55,724
Total assets	$ 3,301,075	$ 1,194,332	$ 4,495,407
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable and accrued expenses	$ 45,112	$ 9,101	$ 54,213
Deferred revenue	132,795	14,633	147,428
Current portion, compensated absences	94,834	51,621	146,455
Current portion, capital lease obligations	3,448	-	3,448
Total current liabilities	276,189	75,355	351,544
NONCURRENT LIABILITIES			
Compensated absences, net of current portion	22,479	75,244	97,723
Capital Lease, net of current portion	599	-	599
Net OPEB obligation	398,716	105,776	504,492
Total noncurrent liabilities	421,794	181,020	602,814
Total liabilities	697,983	256,375	954,358
NET POSITION			
Invested in capital assets, net of related debt	2,342,413	960,743	3,303,156
Unrestricted	165,679	(32,518)	133,161
Restricted - expendable	95,000	-	95,000
Restricted - nonexpendable	-	9,732	9,732
Total net position	2,603,092	937,957	3,541,049
Total liabilities and net position	$ 3,301,075	$ 1,194,332	$ 4,495,407

MontanaPBS
A PUBLIC TELEVISION ENTITY OPERATED BY
THE MONTANA UNIVERSITY SYSTEM

COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

for the year ended June 30, 2013

	KUSM	KUFM	Total
OPERATING REVENUES			
Grants from CPB	$ 1,026,947	$ -	$ 1,026,947
Grants from state agencies	190,000	-	190,000
Grants from public broadcasting entities	18,103	-	18,103
State and local grants and contracts	-	11,136	11,136
Nongovernmental grants and contracts	18,277	19,553	37,830
Support from the Montana University System			
Appropriations for operations	706,336	440,953	1,147,289
Donated and indirect	802,278	111,685	913,963
Contributions from Friends used for operations	944,110	209,843	1,153,953
Sales and services	35,740	24,835	60,575
Production underwriting	127,796	-	127,796
Program underwriting	89,021	-	89,021
Other contributions	183,418	6,900	190,318
Other operating revenue	269,181	22,269	291,450
Total operating revenues	4,411,207	847,174	5,258,381
OPERATING EXPENSES			
Broadcasting	1,909,604	250,674	2,160,278
Programming and production	1,590,005	599,860	2,189,865
Program information and promotion	167,763	-	167,763
Management and general	549,917	171,090	721,007
Fundraising and membership development	502,010	-	502,010
Solicitation and underwriting	44,732	-	44,732
Total operating expenses	4,764,031	1,021,624	5,785,655
OPERATING INCOME (LOSS)	(352,824)	(174,450)	(527,274)
NONOPERATING REVENUES			
Federal grants and contracts for capital projects	583,639	-	583,639
Contributions from Friends for capital	74,061	-	74,061
Capital contributions	-	-	-
Investment income	1,833	433	2,266
Total nonoperating revenues	659,533	433	659,966
OTHER REVENUES, EXPENSES, GAINS AND LOSSES			
Interest Expense	(407)	-	(407)
Additions to permanent endowments	-	7,776	7,776
Total other revenues, expenses, gains and losses	(407)	7,776	7,369
NET CHANGE IN NET POSITION	306,302	(166,241)	140,061
NET POSITION - Beginning of year	2,296,790	1,104,198	3,400,988
NET POSITION - End of year	$ 2,603,092	$ 937,957	$ 3,541,049

MontanaPBS
A PUBLIC TELEVISION ENTITY OPERATED BY
THE MONTANA UNIVERSITY SYSTEM
COMBINING SCHEDULE OF CASH FLOWS
for the year ended June 30, 2013

	KUSM	KUFM	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from grantors	$ 1,590,336	$ 222,352	$ 1,812,688
Receipts from others	2,060,416	488,057	2,548,473
Compensation and benefits	(1,441,432)	(544,475)	(1,985,907)
Other operating expenses	(1,918,740)	(134,184)	(2,052,924)
Net cash from operating activities	290,580	31,750	322,330
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of investments	(26,242)	-	(26,242)
Net cash from noncapital and related financing activities	(26,242)	-	(26,242)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchases of capital assets	(458,900)	-	(458,900)
Cash received from capital grants and contributions	657,700	-	657,700
Principal and interest paid on long-term debt	(3,622)	-	(3,622)
Net cash from capital and related financing activities	195,178	-	195,178
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment income (expense)	1,832	1	1,833
NET CHANGE IN CASH AND CASH EQUIVALENTS	461,348	31,751	493,099
CASH AND CASH EQUIVALENTS - Beginning of year	306,852	142,398	449,250
CASH AND CASH EQUIVALENTS - End of year	$ 768,200	$ 174,149	$ 942,349
RECONCILIATION OF OPERATING LOSS TO NET CASH FLOWS FROM OPERATING ACTIVITIES			
Operating loss	$ (352,824)	$ (174,450)	$ (527,274)
Adjustments to reconcile change in net assets to net cash from operating activities			
Depreciation and amortization	562,754	189,430	752,184
In-kind contribution	(24,989)	-	(24,989)
(Increase) decrease in assets			
Accounts and grants receivable	147,929	(8,362)	139,567
Prepaid expenses	13,011	(2,890)	10,121
Increase (decrease) in liabilities			
Accounts payable and accrued expenses	(24,423)	4,626	(19,797)
Compensated absences	(42,703)	16,206	(26,497)
Deferred grants and revenue	(52,629)	(6,928)	(59,557)
Net OPEB obligation	64,454	14,118	78,572
Net cash flows from operating activities	$ 290,580	$ 31,750	$ 322,330

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

	KUSM	**KUFM**	**Friends of MontanaPBS, Inc.**	**2013 Total**	2012 Total
SUPPORT AND REVENUES					
Total support and revenues per statement of revenue, expenses, and changes in net position					
Operating revenues	**$ 4,411,207**	**$ 847,174**	**$ -**	**$ 5,258,381**	$ 4,882,765
Nonoperating revenues	**659,533**	**433**	**1,527,630**	**2,187,596**	2,313,574
Other revenues	**-**	**7,776**	**-**	**7,776**	-
Subtotal per CPB report Schedule F	**5,070,740**	**855,383**	**1,527,630**	**7,453,753**	7,196,339
Less					
Public broadcasting support	**1,654,754**	**-**	**-**	**1,654,754**	1,466,807
Friends revenue presented discretely	**-**	**-**	**1,314,806**	**1,314,806**	1,120,981
In-kind revenue (not NFFS)	**2,200**	**-**	**-**	**2,200**	14,955
Capital grants and contributions	**49,927**	**-**	**-**	**49,927**	160,559
Miscellaneous other items	**184,247**	**358**	**6,119**	**190,724**	167,599
Subtotal	**1,891,128**	**358**	**1,320,925**	**3,212,411**	2,930,901
Non-Federal financial support per CPB report summary, Line 5	**$ 3,179,612**	**$ 855,025**	**$ 206,705**	**$ 4,241,342**	$ 4,265,438
EXPENSES					
Total expenses per statement of revenues, expenses, and changes in net position	**$ 4,764,438**	**$ 1,021,624**	**$ 1,551,722**	**$ 7,337,784**	$ 7,031,130
Less contributions from Friends of Montana PBS to Montana PBS/ KUSM TV/KUFM TV	**-**	**-**	**1,314,806**	**1,314,806**	1,120,981
OPERATING EXPENSES PER CPB Report Summary, Schedule E, Line 8	**$ 4,764,438**	**$ 1,021,624**	**$ 236,916**	**$ 6,022,978**	$ 5,910,149