t

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

KGLT-FM
A Public Telecommunications Entity Operated by the Board of Regents – Montana University System

June 30, 2011 and 2010

KGLT-FM
A Public Telecommunications Entity Operated by the Board of Regents – Montana University System

June 30, 2011 and 2010

CONTENTS

Management's Discussion and Analysis
Fiscal Year end June 30, 2011

KGLT-FM, created in 1968, is a forty-five year old university radio station located on the campus of Montana State University and operated by the Board of Regents of the Montana University System. KGLT-FM has one transmitter located in Logan, MT, and three translators, one each in Bozeman, MT, Helena, MT, and one in Livingston, MT. KGLT-FM is known as alternative public community free format radio. A related fund raising entity, Friends of KGLT ("Friends") is a not-for-profit Montana corporation that provides financial support to KGLT-FM. These statements include the activities of Friends. KGLT 91.1FM is a grass roots, free format all music, non-commercial, educational, & community radio station on the Montana State University campus, in Bozeman Montana. KGLT is non-political, plays diverse music, from jazz, rock, bluegrass to classical and has 80 to 100 volunteer announcers trained three times a year in KGLT apprentice classes. KGLT writes and produces 2,000 public service announcements per year, The station is supported financially by ASMSU, Federal grants, Foundations, Friends of KGLT, area businesses, and listeners.

Financial Reporting Standards

KGLT-FM follows GASB standards for reporting. The annual financial report consists of three basic financial statements:

1. the Statements of Net Assets;
2. the Statements of Revenues, Expenses and Changes in Net Assets;
3. the Statements of Cash Flows.

The Management's Discussion and Analysis is required as part of the KGLT-FM external audit. The following discussion will address financial issues with comparisons between 2010 and 2011, with emphasis on the latter year. Issues will be discussed that have impacted differences, successes, and room for growth.

Financial Highlights for FY 2011

KGLT-FM's 44th Annual Fund Drive 2011 raised $126,122 in pledges with $118,766 collected by the end of FY11 vs. $113,977 in pledges in FY10 with $102,180 collected by that year end -- an increase in fiscal year to year totals received (revenue) of 14%. KGLT Fund Drive celebrated its greatest Fund Drive success in its history in 2011, proof of the important connection between community radio and community, KGLT and the students and employees of Montana State University. 175 first time pledgers donated with impetus from a matching $15,000 grant for new donors from the Mericos Foundation. Over 900 incentive items were collected in FY11 as compared to approximately 849 in FY10. Underwriting increased to $88,490 in FY11 from $84,038 in FY10, an increase of 5%. Underwriters increased by number and there was less attrition, showing signs of a minor upswing in local businesses and consumer confidence in purchasing.

Use of Financial Statements

A discussion of the statements follows:

- The statements are prepared using the accrual basis of accounting and represent a consolidation of all indexes representing CPB grants managed through the Montana State University Office of Sponsored Programs and the Associated Students of Montana State University, of which KGLT-FM is one of 22 committees, as well as Friends financial information. All indexes are internally managed through the Banner System of Montana State University.
- Assets and liabilities are measured at current value and capital assets at cost less depreciation.
- Depreciation of capital assets is treated as an operating expense.
- Assets and liabilities are treated as current (due within one year), or as noncurrent (due in more than one year) and are presented in the Statements of Net Assets.
- Revenues and expenses are classified as operating or non-operating. "Operating" is defined as the result of transactions involving exchanges of goods or services for payment, while "Non-operating" is the result of transactions not involving exchanges of goods or services for payment.

Statements of Net Assets

The following is a summary of the Statements of Net Assets without Friends information:

	As of June 30, 2011	2010
ASSETS		
Total current assets	$ 114,597	$ 103,589
Capital assets, net	45,173	43,831
Total assets	$ 159,770	$ 147,420
LIABILITIES AND NET ASSETS		
Total current liabilities	$ 89,621	$ 80,114
Total noncurrent liabilties	57,446	61,128
Total liabilities	147,067	141,242
Unrestricted net assets	(17,470)	(22,653)
Invested in capital assets, net of related debt	30,173	28,831
Total net assets	12,703	6,178
Total liabilities and net assets	$ 159,770	$ 147,420

The following events or developments occurred during FY11 and had a significant impact on the statement of net assets:

- Liabilities increased overall in the current year because of other post-employment benefits and accrued compensated absences.
- Net assets increased in FY11 due to net income in the current year compared to net loss in the prior year. Without purchases of capital equipment the amortization of capital assets will continue to reduce the total invested capital assets net of related debt.

Statements of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets are the result of KGLT-FM and Friends operational activities for each fiscal year. Revenues and expenses are categorized as either operating or non-operating. Following accrual accounting methods, current year's revenues and expenses are recognized when they were earned or incurred, regardless of when cash was received or paid.

The following provides a summary of the Statements of Revenues, Expenses and Changes in Net Assets without Friends information:

	For the years ended June 30, 2011	2010
Operating revenues	$ 468,050	$ 479,541
Operating expenses	461,525	484,984
Operating income (loss)/net increase (decrease) in net assets	6,525	(5,443)
Net assets, beginning of year	6,178	11,621
Net assets, end of year	$ 12,703	$ 6,178

Comments about specific revenue and expense items for FY11 are:

- Total operating revenues decreased by $11,491 or 2% because the CPB RLAIF was not awarded until FY12 representing a decrease of almost $30,000. Additionally, the station required $26,000 less in support from ASMSU due to salary savings, as a result of the retirement of one employee. Offsetting these decreases were increased indirect support of $11,312 due to an adjusted in-kind provision of rent based on increased square footage and an increase in other revenues.

- Operating expenses decreased by 5%. Salaries & wages decreased by approximately 8% along with contract services for installation of a new transmitter.

Beginning in fiscal year 2010, compensation expenses were allocated to KGLT-FM's functional areas based on a review of how staff spent their time.

Statements of Cash Flows

The Statements of Cash Flows describes KGLT-FM's sources and uses of cash during the fiscal year. This statement helps assess KGLT-FM's ability to meet commitments as they become due, their ability to generate future cash flows, and their need for external financing. GASB requires the use of the "Direct Method" for presenting results of cash flows, which focuses on transactions that provided or used cash in the fiscal year.

The following is a summary of the Statements of Cash Flows without Friends information:

	For the years ended June 30, 2011	2010
Cash provided by (used in):		
Operating activities	$ 3,523	$ 14,473
Capital financing activities	-	(15,000)
Net increase in cash	3,523	(527)
Cash, beginning of year	75,916	76,443
Cash, end of year	$ 79,439	$ 75,916

Specific events or cash transactions that had significant influence on the increase in cash:

- Cash from operating activities decreased by $20,070 due to decreased income.

Discussion of Significant Pending Economic and Financial Issues

- **New translator frequency**

The new translator signal, 97.1 increased support in Bozeman, KGLT's most important underwriting and community outreach resource. KGLT showed a drop in underwriting from FY09 to FY10 but much of it was writing off uncollected receivables. The increase from FY10 to FY11 in underwriting and Fund Drive represents increase in community support. The decrease in the Associated Students of Montana State University, $8,000 lower than the requested amount by KGLT to ASMSU is due to the Chief Engineer position remaining a contracted service rather than a classified position.

- **Addition of Commerce Manager on website**

Commerce Manager, a "PayPal" like tool on www.kglt.net has facilitated online pledging. FY10 was $6,395 and FY11 was $10,718, an increase of online giving of 40%.

- **Friends of KGLT**

Friends of KGLT, with the addition of new board members and a renewed sense of direction, donated about $5,000 in FY11. The April Fool's party is now an annual event; the "Get to Know You" in Helena was attended by 250 people. The goal: to add community members in each of our translator locations. A Music Swap is planned in Bozeman, to attract old friends and new listeners, hopefully an annual affair. KGLT looks to the Friends of KGLT to continue giving money to the station to support projects.

- **Webcasting, Sound Exchange, subscriptions**

Streaming has grown to the point where the station receives more out of state Fund Drive support. Our Sound Exchange payment is not covered by CPB. Some subscriptions have fallen back to the ASMSU budget because they are no longer new and CPB worthy.

- **Fund Drive 2011**

Through Friends, Mericos Foundation gave a matching grant in FY2011 for $12,500 for new pledges. KGLT had the most successful Fund Drive in its history - $126,122 in pledges not including the matching grant. Of very special note, Mericos committed to $15,000 for 2012 Fund Drive (not yet received).

- **Retirement of Phil Charles, General Manager of KGLT for 21 years**

Mr. Charles was replaced by Ellen King-Rodgers, a savings of $20,000 in salary. His responsibilities were divided by the existing staff. What was once a staff of five is now a staff of four.

- **New Transmitter/Translator possibilities**

KGLT seeks transmitter/translator signal possibilities in towns that don't have much radio, specifically free format alternative community radio.

- **Continued focus on local programming to enhance community pride and partnership**

KGLT started Montana Medicine Show and Sonic IDs with support from CPB. Continued funding has been provided by Greater Montana Foundation and Humanities Montana. KGLT searches for more local support and continues to have a strengthening reciprocal relationship with Yellowstone Public Radio (part of the Montana University System, a CPB recipient also). The focus of local programming is to allow people to celebrate our idiosyncrasies and special talents, those diverse attributes that make us special and strong when we come together to deal with issues. "Montana Medicine Show" is two minute vignettes about little known, eccentric Montana history. Sonic IDs are sound snapshots of people doing what they love to do in life. In the works: a program called Rare Cuts - about great music and musicians local to each of the United States.

GALUSHA
HIGGINS &
GALUSHA
A Professional Corporation of
Certified Public Accountants and Advisors

777 East Main, Suite 201, Bozeman, MT 59715
P.O. Box 340, Bozeman, MT 59771

Phone (406) 586-2386
Fax (406) 586-5486

www.ghg-cpa.com

INDEPENDENT AUDITOR'S REPORT

Board of Regents-Montana University System
Bozeman, Montana

We have audited the accompanying statements of net assets of KGLT-FM (a public telecommunications entity operated by the Board of Regents-Montana University System) and its discretely presented component unit (Friends of KGLT) as of June 30, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of KGLT-FM management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of business-type activities and the discretely presented component unit of KGLT-FM as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have issued our report dated December 23, 2011 on our consideration of KGLT-FM's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audits.

Accounting principles generally accepted in the United States of American require that management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by 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 evidence sufficient to express an opinion or provide any assurance.

Galusha, Higgins & Galusha, PC

Bozeman, Montana
December 23, 2011

KGLT-FM
A PUBLIC TELECOMMUNICATIONS ENTITY OPERATED BY
THE BOARD OF REGENTS-MONTANA UNIVERSITY SYSTEM

STATEMENTS OF NET ASSETS

June 30, 2011

ASSETS

	KGLT	Friends of KGLT	Total
CURRENT ASSETS			
Cash	$ 88,559	$ 5,402	$ 93,961
Accounts receivable	9,590	-	9,590
Pledges receivable	8,017	-	8,017
Prepaid expenses	8,431	-	8,431
Total current assets	114,597	5,402	119,999
NONCURRENT ASSETS			
Capital assets, net	30,173	33,593	63,766
Other intangible assets	15,000	-	15,000
	45,173	33,593	78,766
	$ 159,770	$ 38,995	$ 198,765

LIABILITIES & NET ASSETS

	KGLT	Friends of KGLT	Total
CURRENT LIABILITIES			
Accounts payable	$ 2,402	$ -	$ 2,402
Wages payable	16,773	-	16,773
Accrued compensated absences	6,406	-	6,406
Deferred revenue	64,040	-	64,040
Total current liabilities	89,621	-	89,621
NONCURRENT LIABILITIES			
Accrued compensated absences	7,829	-	7,829
Other post-employment benefits	49,617	-	49,617
Total noncurrent liabilities	57,446	-	57,446
Total liabilities	147,067	-	147,067
NET ASSETS			
Unrestricted net assets	(17,470)	5,402	(12,068)
Invested in capital assets, net of related debt	30,173	33,593	63,766
Total net assets	12,703	38,995	51,698
	$ 159,770	$ 38,995	$ 198,765

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

KGLT-FM
A PUBLIC TELECOMMUNICATIONS ENTITY OPERATED BY
THE BOARD OF REGENTS-MONTANA UNIVERSITY SYSTEM

STATEMENTS OF NET ASSETS

June 30, 2010

ASSETS

	KGLT	Friends of KGLT	Total
CURRENT ASSETS			
Cash	$ 85,036	$ 1,902	$ 86,938
Accounts receivable	7,562	-	7,562
Pledges receivable	10,991	-	10,991
Total current assets	103,589	1,902	105,491
NONCURRENT ASSETS			
Capital assets, net	28,831	35,141	63,972
Other intangible assets	15,000	-	15,000
	43,831	35,141	78,972
	$ 147,420	$ 37,043	$ 184,463

LIABILITIES & NET ASSETS

	KGLT	Friends of KGLT	Total
CURRENT LIABILITIES			
Accounts payable	$ 7,846	$ -	$ 7,846
Wages payable	18,264	-	18,264
Accrued compensated absences	6,606	-	6,606
Deferred revenue	47,398	-	47,398
Total current liabilities	80,114	-	80,114
NONCURRENT LIABILITIES			
Accrued compensated absences	7,897	-	7,897
Deferred revenue	14,026	-	14,026
Other post-employment benefits	39,205	-	39,205
Total noncurrent liabilities	61,128	-	61,128
Total liabilities	141,242	-	141,242
NET ASSETS			
Unrestricted net assets	(22,653)	1,902	(20,751)
Invested in capital assets, net of related debt	28,831	35,141	63,972
Total net assets	6,178	37,043	43,221
	$ 147,420	$ 37,043	$ 184,463

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

KGLT-FM
A PUBLIC TELECOMMUNICATIONS ENTITY OPERATED BY
THE BOARD OF REGENTS-MONTANA UNIVERSITY SYSTEM

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

for the year ended June 30, 2011

	KGLT	Friends of KGLT	Total
OPERATING REVENUES			
Contributions from fund drive	$ 131,792	$ -	$ 131,792
Grants from CPB	122,861	-	122,861
Other foundation grants	-	12,500	12,500
In-kind donations	36,635	2,500	39,135
Support from the Montana University System:			
Montana State University	47,554	-	47,554
Associated Students of Montana State University	31,215	-	31,215
Other operating revenues	97,993	-	97,993
Total operating revenues	468,050	15,000	483,050
OPERATING EXPENSES			
Broadcasting	95,354	-	95,354
Programming and production	106,677	-	106,677
Program information and promotion	3,721	-	3,721
Management and general	93,408	58	93,466
Fundraising and membership development	125,694	973	126,667
Solicitation and underwriting	28,854	-	28,854
Land, buildings and equipment	7,817	1,548	9,365
Contributions to affiliates	-	16,995	16,995
Other operating	-	-	-
Total operating expenses	461,525	19,574	481,099
OPERATING INCOME (LOSS)	6,525	(4,574)	1,951
NONOPERATING REVENUES			
Contributions-other	-	6,526	6,526
Total nonoperating revenues	-	6,526	6,526
CHANGE IN NET ASSETS	6,525	1,952	8,477
NET ASSETS, beginning of year	6,178	37,043	43,221
NET ASSETS, end of year	$ 12,703	$ 38,995	$ 51,698

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

KGLT-FM
A PUBLIC TELECOMMUNICATIONS ENTITY OPERATED BY
THE BOARD OF REGENTS-MONTANA UNIVERSITY SYSTEM

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

for the year ended June 30, 2010

	KGLT	Friends of KGLT	Total
OPERATING REVENUES			
Contributions from fund drive	$ 111,450	$ -	$ 111,450
Grants from CPB	151,676	-	151,676
Other foundation grants	-	10,000	10,000
In-kind donations	38,978	-	38,978
Support from the Montana University System:			
Montana State University	36,242	-	36,242
Associated Students of Montana State University	57,743	-	57,743
Other operating revenues	83,452	-	83,452
Total operating revenues	479,541	10,000	489,541
OPERATING EXPENSES			
Broadcasting	60,246	-	60,246
Programming and production	72,612	-	72,612
Program information and promotion	21,586	-	21,586
Management and general	123,123	59	123,182
Fundraising and membership development	160,955	302	161,257
Solicitation and underwriting	38,293	-	38,293
Land, buildings and equipment	7,841	1,204	9,045
Contributions to affiliates	-	1,164	1,164
Other operating	328	-	328
Total operating expenses	484,984	2,729	487,713
OPERATING INCOME (LOSS)	(5,443)	7,271	1,828
NONOPERATING REVENUES			
Contributions-other	-	1,124	1,124
Total nonoperating revenues	-	1,124	1,124
CHANGE IN NET ASSETS	(5,443)	8,395	2,952
NET ASSETS, beginning of year	11,621	28,648	40,269
NET ASSETS, end of year	$ 6,178	$ 37,043	$ 43,221

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

KGLT-FM
A PUBLIC TELECOMMUNICATIONS ENTITY OPERATED BY
THE BOARD OF REGENTS-MONTANA UNIVERSITY SYSTEM

STATEMENTS OF CASH FLOWS

for the year ended June 30, 2011

	KGLT	Friends of KGLT	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
ASMSU support	$ 31,215	$ -	$ 31,215
Community service grants	124,482	-	124,482
Other operating revenues	96,960	-	96,960
Donations	134,766	12,500	147,266
Compensation and benefits	(196,387)	-	(196,387)
Operating expenses	(187,513)	(15,526)	(203,039)
Net cash provided by (used in) operating activities	3,523	(3,026)	497
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Donations	-	6,526	6,526
Net cash provided by non-capital financing activities	-	6,526	6,526
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	-	-	-
NET INCREASE IN CASH	3,523	3,500	7,023
CASH, beginning of year	85,036	1,902	86,938
			-
CASH, end of year	$ 88,559	$ 5,402	$ 93,961
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES			
Operating income (loss)	$ 6,525	$ (4,574)	$ 1,951
Adjustments to reconcile operating income to net cash provided by (used in) operating activities			
Depreciation	1,991	1,548	3,539
Depreciation adjustment	(3,333)	-	(3,333)
Increase in accounts receivable	(2,028)	-	(2,028)
Decrease in pledges receivable	2,974	-	2,974
Increase in prepaid expenses	(8,431)	-	(8,431)
Decrease in accounts payable	(5,444)	-	(5,444)
Decrease in wages payable	(1,491)	-	(1,491)
Decrease in compensated absences	(268)	-	(268)
Increase in deferred revenue	2,616	-	2,616
Increase in other post-employment benefits	10,412	-	10,412
Net cash flows provided by (used in) operating activities	$ 3,523	$ (3,026)	$ 497

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

KGLT-FM
A PUBLIC TELECOMMUNICATIONS ENTITY OPERATED BY
THE BOARD OF REGENTS-MONTANA UNIVERSITY SYSTEM

STATEMENTS OF CASH FLOWS

for the year ended June 30, 2010

	KGLT	Friends of KGLT	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
ASMSU support	$ 83,279	$ -	$ 83,279
Community service grants	117,284	-	117,284
Other operating revenues	106,479	-	106,479
Donations	102,573	-	102,573
Compensation and benefits	(220,508)	-	(220,508)
Operating expenses	(165,514)	(1,525)	(167,039)
Net cash provided by (used in) operating activities	23,593	(1,525)	22,068
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Donations	-	1,124	1,124
Net cash provided by non-capital financing activities	-	1,124	1,124
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of intangible assets	(15,000)	-	(15,000)
Purchase of capital assets	-	(9,374)	(9,374)
Grants and other contributions	-	10,000	10,000
Net cash provided by (used in) non-capital financing activities	(15,000)	626	(14,374)
NET INCREASE IN CASH	8,593	225	8,818
			-
CASH, beginning of year	76,443	1,677	78,120
			-
CASH, end of year	$ 85,036	$ 1,902	$ 86,938
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES			
Operating loss	$ (5,443)	$ (2,729)	$ (8,172)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities			
Depreciation	5,320	1,204	6,524
Decrease in accounts receivable	23,028	-	23,028
Increase in pledges receivable	(8,877)	-	(8,877)
Decrease in due from other governments	25,536	-	25,536
Increase in accounts payable	6,324	-	6,324
Increase in wages payable	1,226	-	1,226
Increase in compensated absences	4,279	-	4,279
Decrease in deferred revenue	(34,392)	-	(34,392)
Decrease in due to other governments	(8,440)	-	(8,440)
Increase in other post-employment benefits	15,032	-	15,032
Net cash flows provided by (used in) operating activities	$ 23,593	$ (1,525)	$ 22,068

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

1. *Organization.* KGLT-FM (the Station) is operated by the Montana University System, which is controlled by the Montana Board of Regents. The Station is a not-for-profit public radio station operating from the campus of Montana State University-Bozeman. Currently, KGLT serves the Bozeman area and parts of Montana which are within the KGLT reception area. The Station relies on grants, university support and public contributions.

   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 Station.

2. *Component Unit.* The Friends of KGLT (Friends) raises funds to provide financial and other support to the Station. The support provided includes fund raising and positive community relations. The administration of Friends is provided by a Board of Directors that consisted of nine and eleven members for the years ended June 30, 2011 and 2010, respectively.

   In accordance with GASB No. 39, the financial statements of Friends of KGLT are being presented in this financial report as a component unit, not as consolidated organization. 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 the Station are recorded as an expense on the financial statements of Friends and as revenue on the financial statements of the Station.

3. *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 Government* and GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities.* As the station does not have governmental fund types, GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* is not applicable. Under GASB Statements No. 34 and No. 35, the Station is required to present a statement of net assets classified between current and noncurrent assets and liabilities, a statement of revenues, expenses and changes in net assets, with separate presentation for operating and non-operating revenues and expenses, and a statement of cash flows using the direct method.

4. *Basis of Accounting.* For financial reporting purposes, the Station is considered a special program of the Associated Students of Montana State University (ASMSU) 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.

   The Station applies all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, l989, unless FASB conflicts with Governmental Accounting Standards Board (GASB).

Continued

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

5. *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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

6. *Cash and Cash Equivalents.* For purposes of the statements of cash flows, cash balances maintained in pooled funds with other University funds are considered cash equivalents. The University allocates cash balances to the Station from their funds invested in the Short Term Investment Pool (STIP) with the Montana Board of Investments. There are no cash equivalents as of June 30, 2011 and 2010.

7. *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 but are not subject to finance charges.

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

8. *Capital Assets.* Capital assets with a cost, or donated assets with an estimated fair market value on the date of receipt, of $5,000 or more and an estimated useful life of more than one year are capitalized. As of July 1, 2010, intangible assets with a cost, or donated assets with an estimated fair market value on the date of receipt, of $100,000 or more and an estimated useful life of more than one year are capitalized.

   Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which is 25 years for equipment. Depreciation is reported as a management and general expense in the statements of revenues, expenses, and changes in net assets.

9. *Other Intangible Assets.* The Station purchased a broadcasting license in 2010, which is being reported at cost. Pursuant to ASC 350, *Intangibles – Goodwill and Other,* intangible assets other than goodwill are reviewed for impairment whenever events or changes in circumstances indicate their carrying value may not be fully recoverable. If an impairment indicator exists, recoverability is assessed by comparing the carrying value to undiscounted cash flows expected for be generated by the assets. If impaired, the impairment recognized is the amount by which the carrying value exceeds its fair value, which is then charged as a non-operating charge to the statement of operations. No impairment indicators existed in fiscal years 2011 and 2010.

Continued

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

.

10. *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 statements of net assets and as a component of management and general in the statements 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 accrued compensated absences include employer benefits.

11. *Other Post-Employment Benefits (OPEB).* During the year ended June 30, 2008, the University adopted Governmental Accounting Standards Board Statement Number 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The University allows retirees to participate in the Montana University System's self-funded health insurance plan by paying an amount considered by the University to cover their full costs (as calculated using the pooled risk of retirees and active employees). The state has not mandated funding the liability. See note E.

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

    Invested in capital assets, net of related debt: This represents the Station's 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. The Station had no outstanding debt for the years ended June 30, 2011 and 2010, respectively.

    Restricted assets: The component of net assets that reports the constraints placed on the use of net assets by either external parties or enabling legislation. The Station had no restricted assets for the years ended June 30, 2011 and 2010, respectively.

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

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

13. *Classification of Activities.* The station has classified their revenues as either operating or non-operating.

    Operating revenues: Operating revenues generally result from donations from the general public, underwriting of broadcast programs and instructional technology services. Operating revenues include (1) operating grants from Corporation for Public Broadcasting (CPB), (2) contributions from the annual fund drive, (3) in-kind contributions, (4) indirect support from the Montana University System (5) support from ASMSU, and (6) underwriting.

    Non-operating revenues: Grants and contributions received by Friends are recorded as non-operating revenues.

Continued

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

14. *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 revenue in the accompanying statements of net assets.

15. *Community Service Grants.* The 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 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.

    The grants received by the station are broken out into a restricted and unrestricted portion based on a percentage identified by CPB. The unrestricted portion of the grants may be used at the discretion of the recipients. The station uses these funds primarily for purposes relating to production and programming. Also, the grants may be used to sustain activities initiated with CSGs 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 general provisions pertain to the use of grant funds, record keeping, audits, financial reporting, mailing lists and licensee status with the Federal Communications Commission. The grants were reported on the accompanying financial statements as unrestricted operating revenues.

16. *Donated Facilities, Materials and Services.* Donated facilities from the ASMSU 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 statements of revenues, expenses and changes in net assets. These expenses are recorded as indirect support. Montana State University pays pension contributions and other employee benefits from a benefit cost pool on behalf of some of the Station employees. These expenses are allocated to the Station as direct support.

    Donated personal services are recognized if the services received (1) create or enhance long-lived assets or (2) require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. No donated personal services were recorded for the years ended June 30, 2011 and 2010, respectively.

17. *Pledges Receivable.* Pledges receivable are monies received from the Station's annual fund drive. As required by ASC 958, the Station records pledges receivable at their fair value and discounts pledges to their net present value based on current market interest rates and the expected payment schedule set out by the donor. Subsequent changes to the discount on pledges are recognized as income either restricted or unrestricted as appropriate. At the current time there are no pledges receivable that are greater than one year and management believes all pledges receivable are collectible.

Continued

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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

19. *Advertising.* Advertising costs are expensed as incurred and were $2,100 and $3,300 for the years ended June 30, 2011 and 2010, respectively.

20. *Tax Status.* As a state institution of higher education, the income of the Station is exempt from federal and state income tax under Internal Revenue Code Section 115. However, income generated from activities not related to the exempt purpose would be subject to income tax under Internal Revenue Code Section 511(a)(2)(B).

    Friends is a not-for-profit corporation under Internal Revenue Code Section 501(c)(3) and is classified as other than a private foundation.

21. *Reclassifications.* Certain reclassifications were made to the 2010 financial statements to conform them to the classifications used in 2011.

.

Continued

NOTE B – CAPITAL ASSETS

Following are the changes in capital assets for the year ended June 30, 2011.

	Balance 6/30/10	Additions	Deletions	Transfers and Other Changes	Balance 6/30/11
Transmission equipment	$ 39,577	$ -	$ -	$ -	$ 39,577
Studio and broadcast equipment	63,905	-	-	-	63,905
Total capital assets	103,482	-	-	-	103,482
Less accumulated depreciation for:					
Transmission equipment	17,690	1,581	-	(3,333)	15,938
Studio and broadcast equipment	21,820	1,958	-	-	23,778
Total accumulated depreciation	39,510	3,539	-	(3,333)	39,716
Capital assets, net	$ 63,972	$ (3,539)	$ -	$ 3,333	$ 63,766

Depreciation expense recognized was $3,539 in 2011 and $6,523 in 2010. During the year ended June 30, 2011, it was noted that depreciation was taken on an asset that should not have been depreciated. As a result an adjustment of $3,333 was made in the current year to depreciation expense.

NOTE C – OPERATING LEASE

During the fiscal year ended June 30, 2004, the Station entered into a tower site co-location lease agreement. The lessor provides space for the Station's antenna structures, transmitters and associated equipment and for a backup generator and propane tank. The term of the lease is for a period of 10 years commencing on September 1, 2003 and ending on August 31, 2013. The Station has the option to renew this lease three times for a period of 10 years each. Monthly rent payments are currently $984 with a 3% increase each January 1st.

Continued

NOTE C – OPERATING LEASE, continued

The future minimum obligations under this operating lease are as follows for the years ended June 30:

2012	$	11,978
2013		12,338
2014		2,087
2015		-
	$	26,403

NOTE D – PENSION PLANS

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

Following is a schedule of required contributions to the plan:

	2011		2010	
	PERS	ORP	PERS	ORP
Employer contributions	$ 8,431	$ 858	$ 9,050	$ 987

The above funding policies provide for periodic employer and employee contributions at rates specified by State law. Contribution requirements are 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 forty years. Each system functions uniquely and is described as follows:

Public Employees' Retirement System (PERS)

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

Continued

NOTE D – PENSION PLANS, continued

Monthly retirement benefits are determined by multiplying 1/56 by the number of years of service by the final average salary, unless the employee has 25 or more years of service, in which case the multiplier is 1/50. The required contribution rates for active participants and employers are statutorily determined (MCA §19-3-315 and MCA §19-3-316). 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.

Optional Retirement Program (ORP)

ORP commenced in January 1988, and is underwritten by the Teachers' Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF). Effective July 1, 1993, ORP was made the mandatory retirement plan for new faculty and administrative staff. The ORP is a defined contribution plan, established under authority of Title 19, Chapter 21, MCA. Benefits at retirement depend upon the amount of investment gains and losses and the employee's life expectancy at retirement. Under the ORP, each employee enters into an individual contract with TIAA-CREF. The University records employee/employer contributions, and remits monies to TIAA-CREF. Combined contributions cannot exceed 13% of the participants compensation (MCA §19-21-203). Individuals are immediately vested with contributions. Annual reports that include financial statements and required supplemental information on the plan are available from TIAA-CREF, 730 Third Avenue, New York, New York 10017-3206, Phone 1-800-842-2733.

NOTE E – OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Retirees who are eligible to receive retirement benefits from Teachers Retirement System (TRS) of the Public Employees Retirement System (PERS) at the time employment ceases may participate in the health insurance plan. Retirees who are in the Optional Retirement Plan (ORP) (through TIAA-CREF) or any other defined contribution plan associated with the Montana University System must have worked five or more years and be age 50, or have worked 25 years with the Montana University System to be eligible for retiree insurance benefits.

Post employment benefit (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with GASB 45. For the years ended June 30, 2011 and 2010, KGLT-FM's annual actuarial OPEB cost (expense) for retiree health benefits was $14,597 and $12,775, respectively.

NOTE F - RELATED PARTY TRANSACTIONS

A volunteer disc jockey is a family member of a granting organization. During the years ended June 30, 2011 and 2010, Friends received grants from this granting organization in the amounts of $12,500 and $10,000, respectively.

In fiscal year 2010 Friends purchased equipment for KGLT's use in the amount of $8,068 and $29,316 for studio equipment and remodeling. In fiscal year 2011, no equipment purchases were made by Friends for KGLT.

Continued

NOTE G – IN-KIND DONATIONS AND INDIRECT SUPPORT

The following in-kind donations were recorded for the years ended June 30:

	2011	2010
Donated facilities and utilities	$ 47,554	$ 36,242
In-kind services provided by program sponsors	2,100	3,300
In-kind professional services	2,500	-
Fund drive incentive donations	34,535	35,678
	$ 86,689	$ 75,220

NOTE H – DEFERRED REVENUE

Cash advances received through community service grants from the Corporation for Public Broadcasting are recorded as deferred revenue when received and revenues are recognized when expenditures of the grant funds are incurred.

NOTE I – CONCENTRATIONS AND CONTINGENCIES

The Station operates its programs with aid of funding primarily from (1) CPB CSG grants, (2) support from the Montana University System, (3) public contributions and (4) underwriting. A major reduction in the level of support from any of these funding sources could have a negative impact on the Station's ability to maintain its current programs.

The Station must use its CSGs within a two year grant period. Any unexpended funds must be returned to CPB. Although it is a possibility that the funds could not be spent within the grant period, the management of the Station deems the contingency remote.

NOTE J – SUBSEQUENT EVENTS

Management has performed an analysis of the activities and transactions subsequent to June 30, 2011 to determine the need for any adjustments to and/or disclosure within the audited financial statements for the year ended June 30, 2011. This analysis has been performed through December 23, 2011, the date the financial statements were available to be issued. There were no material events that were required to be incorporated and disclosed in these financial statements.

Concluded

GALUSHA
HIGGINS &
GALUSHA

A Professional Corporation of
Certified Public Accountants and Advisors

777 East Main, Suite 201, Bozeman, MT 59715
P.O. Box 340, Bozeman, MT 59771

Phone (406) 586-2386
Fax (406) 586-5486

www.ghg-cpa.com

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Regents-Montana University System
KGLT – FM
Bozeman, Montana

We have audited the financial statements of KGLT-FM, (a public telecommunications entity operated by the Board of Regents-Montana University System) and its discretely presented component unit as of and for the year ended June 30, 2011, and have issued our reported thereon dated December 23, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered KGLT-FM's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of KGLT-FM's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of KGLT-FM's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Prepaid Expenses and Accounts Payable
During our testing of expenditures, we noted that invoices totaling $8,431 related to future membership periods had been paid in advance and not properly recorded as prepaid. We also noted on invoice for $4,316 that was accrued as a payable in advance of when services were provided. These adjustments have been reflected in the financial statements. We recommend that KGLT-FM review expenditures at year end to properly capture prepaid expenses and payables.

Underwriting Contracts
In accordance with CPB guidelines, transactions related to underwriting without the appropriate supporting documentation, may be disallowed. We strongly recommend that management establish controls and implement policies to ensure that proper support is obtained and maintained at the time when underwriting is recognized.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether KGLT-FM's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the Board of Regents and management and is not intended to be and should not be used by anyone other than those specified parties.

Galusha, Higgins & Galusha, PC

December 23, 2011