**The accompanying financial statements and report are intended for the original recipient. They must be presented in their entirety and may not be modified in any manner.**

# YELLOWSTONE PUBLIC RADIO/
# KEMC-FM

**(A Public Radio Entity)**
**Operated by the Montana State University-Billings**

**FINANCIAL REPORT**

**June 30, 2014**

# C O N T E N T S

402 NORTH BROADWAY, 4th FLOOR • P.O. BOX 20435 • BILLINGS, MONTANA 59104-0435
TEL: 406.245.5136 • FAX: 406.245.6056 • WEB: www.azworld.com

# INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Yellowstone Public Radio/KEMC-FM
(A Public Radio Entity)
Operated by Montana State University-Billings
Billings, Montana

**Report on the Financial Statements**
We have audited the accompanying financial statements of the business type activities and discretely presented component unit of Yellowstone Public Radio/KEMC-FM (A Public Radio Entity) operated by Montana State University-Billings (the Station) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Station's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of Yellowstone Public Radio/KEMC-FM as of June 30, 2014, and the respective changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Note 1, the financial statements of the Station are intended to present the financial position and the changes in financial position and cash flows, where applicable, of only that portion of Montana State University-Billings that is attributable to the transactions of the Station. They do not purport to and do not present fairly the financial position of Montana State University-Billings or the Montana University System as of June 30, 2014, and the changes in its financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

**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 progress for other post-retirement benefits plan on pages 4 through 8 and 31, respectively, 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 the 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 Yellowstone Public Radio/KEMC-FM's basic financial statements. The supplementary schedule on page 32 is presented for purposes of additional analysis and is not a required part of the financial statements.

The supplementary schedule is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

*Prior-Year Comparative Information*
We have previously audited Yellowstone Public Radio/KEMC-FM's June 30, 2013, financial statements, and we expressed an unmodified opinion in our report dated December 19, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Anderson ZurMuehlen + Co, P.C.

Billings, Montana
January 12, 2015

Yellowstone Public Radio is operated by Montana State University-Billings, a component unit of the State of Montana. Friends of Public Radio (Friends) is an affiliate that raises funds to provide financial and other support to Yellowstone Public Radio. The discussion and analysis that follows provides an overview of the consolidated Yellowstone Public Radio and Friends financial activities for the fiscal years ended June 30, 2014 and 2013.

## Financial Summary

The financial statements show operating revenues of $522,093 and $530,155 and operating expenses of $1,574,944 and $1,638,111, netting to an operating loss of $1,052,851 and $1,107,956 for the years ended June 30, 2014 and 2013, respectively. This operating loss is offset by non-operating revenues of $1,202,257 and $1,123,491; bringing the change in net position for fiscal years 2014 and 2013 to $149,406 and $15,535, respectively.

The assets of Yellowstone Public Radio and Friends exceeded liabilities by $2,267,520 and $2,080,677 for fiscal years 2014 and 2013, respectively.

Yellowstone Public Radio and Friends cash and cash equivalents at June 30, 2014 and 2013 were $1,376,334 and $1,200,113, respectively, representing an increase of $176,221 from June 30, 2013 and a decrease of $68,186 from June 30, 2012.

Capital outlays for the years ended June 30, 2014 and 2013, were $-0- and $13,406, respectively.

## Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to Yellowstone Public Radio's and Friends' basic financial statements, which are comprised of the Statement of Net Position; the Statement of Revenues, Expenses and Change in Net Position; the Statement of Cash Flows, and the Notes to the Financial Statements. The financial statements are designed to provide the readers with a broad overview of Yellowstone Public Radio and Friends finances in a manner similar to a private-sector business.

**The Statement of Net Position** is presented in a classified format, differentiating between current and noncurrent assets, and categorizing net position.

**Condensed Statement of Net Position**

| | 2014 | 2013 |
|---|---|---|
| Assets | | |
| Current assets | $ 1,337,913 | $ 1,161,391 |
| Capital assets | 45,042 | 71,840 |
| Other assets | 1,376,987 | 1,223,390 |
| Total assets | $ 2,759,942 | $ 2,456,621 |
| Liabilities | | |
| Current liabilities | $ 226,289 | $ 83,710 |
| Long-term liabilities | 266,133 | 292,234 |
| Total liabilities | 492,422 | 375,944 |
| Net position | | |
| Invested in capital assets, net of related debt | 45,041 | 71,839 |
| Unrestricted | 867,507 | 839,660 |
| Restricted - expendable | 1,354,972 | 1,169,178 |
| Total net position | 2,267,520 | 2,080,677 |
| Total liabilities and net position | $ 2,759,942 | $ 2,456,621 |

Current assets include cash and cash equivalents, prepaid expense for programming costs, and accounts receivable related to pledges. Current assets increased by $176,522 primarily due to an increase in cash on deposit at fiscal yearend.

Capital assets, net of related debt, decreased by $26,798 from 2013 to 2014, which resulted primarily from depreciation expense for fiscal year 2014.

Other assets increased by $153,597 primarily due to increase in endowment investments for the year.

Current liabilities include accounts payable, unearned revenue, and the current portion of compensated absences. Current liabilities increased $142,579 from 2013 to 2014 primarily due to an increase in unearned revenue from Corporation for Public Broadcasting (CPB) earnings.

Long-term liabilities include the amount of compensated absences liability estimated to be payable after a one-year period as well as the Station's portion of the OPEB liability and annuity obligations.

Amounts invested in capital assets, net of related debt, consist of the historical acquisition value of capital assets, reduced by both accumulated depreciation expense charged against assets and debt balances related to capital assets. This balance increases as assets are acquired and debt is repaid, and decreases as assets are depreciated and debt is incurred. Please refer to the notes to the accompanying financial statements for more detailed information on capital assets and long-term debt.

Unrestricted net position may be designated for specific purposes by action of management or may otherwise be limited by contractual agreements with outside parties.

Restricted, expendable net position are funds that may only be expended in accordance with restrictions imposed by an external party.

**The Statement of Revenues, Expenses, and Change in Net Position** presents the support and revenue earned and expenses incurred on a full accrual basis and classifies activities as either "operating" or "non-operating." This distinction results in operating deficits for those stations that depend on State appropriations and gifts, which are classified as non-operating revenue.

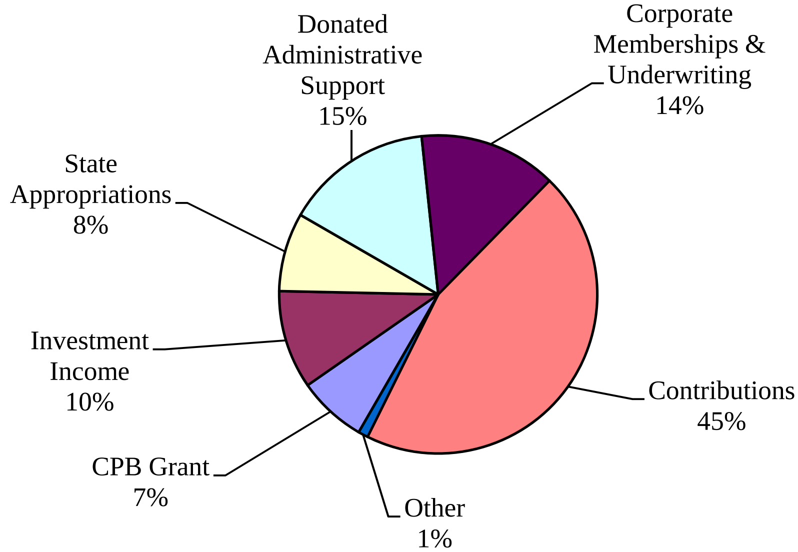
**Condensed Statement of Revenues, Expenses, and Change in Net Position**

| | 2014 | 2013 |
|---|---|---|
| Operating revenues | $ 522,093 | $ 530,155 |
| Operating expenses | 1,574,944 | 1,638,111 |
| Operating loss | (1,052,851) | (1,107,956) |
| Non-operating revenues | 1,202,257 | 1,123,491 |
| Change in net position | $ 149,406 | $ 15,535 |

Operating revenues consist primarily of donated administrative support from the University and corporate memberships and underwriting. The decrease in operating revenue of $8,062 was primarily due to a decrease in corporate memberships and underwriting income for the year.

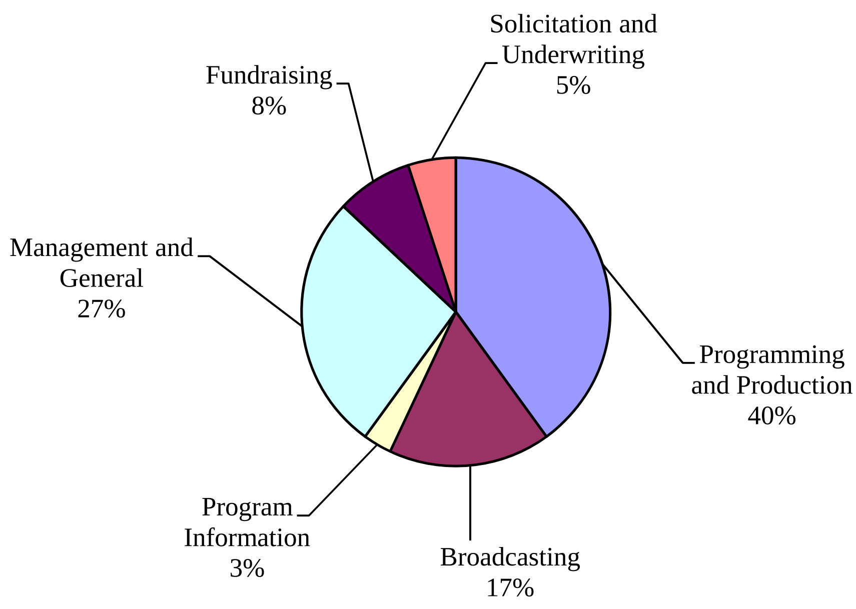
Non-operating revenues consist primarily of CPB grant funds, contributions, investment income, and state appropriations. The increase of $78,766 is primarily due to an increase in investment revenue.

**Revenue by Source**




Operating expenses are presented by CPB categories of program and support. Programming expenses include programming and production, broadcasting, and program information. Support expenses include fundraising, management and general, and underwriting.

**Expenses by Program**



**The Statement of Cash Flows** presents information related to cash inflows and outflows, categorized by operating, investing, and financing activities.

**Condensed Statement of Cash Flows**

| | 2014 | 2013 |
|---|---|---|
| Cash flows from: | | |
| Operating activities | $ (849,291) | $ (994,641) |
| Capital financing activities | - | (13,406) |
| Noncapital financing activities | 990,713 | 1,020,426 |
| Investing activities | 34,799 | (80,565) |
| Net increase (decrease) in cash and cash equivalents | 176,221 | (68,186) |
| Cash and cash equivalents, beginning of year | 1,200,113 | 1,268,299 |
| Cash and cash equivalents, end of year | $ 1,376,334 | $ 1,200,113 |

Operating activities used $849,291 and $994,641 in cash, resulting primarily from the operating loss of $1,052,851 and $1,107,956 for June 30, 2014 and 2013, respectively.

Financing activities provided $990,713 and $1,007,020 in cash for the years ended June 30, 2014 and 2013, respectively, resulting primarily from contributions.

Investing activities provided $34,799 in cash for the year ended June 30, 2014, and used $80,565 in cash for the year ended June 30, 2013.

## Economic Outlook

KEMC/YPR's budget priorities for FY2015 will see expenditure levels remain at or near FY2014 level, with the exception of personnel expenses. After 30 years, our Listener Support Manager has chosen to retire, and the costs associated with her retirement and the search for a replacement will increase overall personnel expenditures for FY2015.

The Listener Support Manager position is an important one for KEMC/YPR's fundraising capabilities. The search for a replacement and the transition to a new individual in that role introduces some uncertainty into forecasting FY2015 fundraising revenue; however, KEMC/YPR anticipates reaching FY2014 levels in unrestricted donations. Underwriting revenue is expected to remain at or near FY2014 levels. CPB Community Service Grant funding and MSU Billings FY2015 direct funding are similar to FY2014 levels and there has been no change in the donated facilities or indirect administrative support from MSU Billings.

# FINANCIAL STATEMENTS

# YELLOWSTONE PUBLIC RADIO/KEMC-FM
(A PUBLIC RADIO ENTITY)
OPERATED BY MONTANA STATE UNIVERSITY-BILLINGS
STATEMENTS OF NET POSITION
June 30, 2014
(with comparative totals as of June 30, 2013)

| | 2014 | | | 2013 |
|---|---|---|---|---|
| | Yellowstone Public Radio | Friends of Public Radio, Inc. | Total | Combined Totals |
| ASSETS | | | | |
| CURRENT ASSETS | | | | |
| Cash and cash equivalents | $ 347,772 | $ 913,323 | $ 1,261,095 | $ 1,074,672 |
| Accounts receivable | 28,064 | - | 28,064 | 38,002 |
| Pledges receivable | - | 43,136 | 43,136 | 43,702 |
| Prepaid expenses | 5,618 | - | 5,618 | 5,015 |
| Total current assets | 381,454 | 956,459 | 1,337,913 | 1,161,391 |
| CAPITAL ASSETS | | | | |
| Studio and broadcast equipment | 159,202 | - | 159,202 | 159,202 |
| Satellite | 13,349 | - | 13,349 | 13,349 |
| Transmission, antenna, tower | 909,317 | - | 909,317 | 915,471 |
| Furniture and fixtures | 16,472 | - | 16,472 | 32,937 |
| Accumulated depreciation | (1,053,298) | - | (1,053,298) | (1,049,119) |
| Total capital assets | 45,042 | - | 45,042 | 71,840 |
| OTHER ASSETS | | | | |
| Restricted cash equivalents | 26,285 | 88,954 | 115,239 | 125,441 |
| Restricted investments | - | 1,181,200 | 1,181,200 | 1,020,789 |
| Cash surrender value - life insurance | - | 80,548 | 80,548 | 77,160 |
| Total other assets | 26,285 | 1,350,702 | 1,376,987 | 1,223,390 |
| Total assets | $ 452,781 | $ 2,307,161 | $ 2,759,942 | $ 2,456,621 |

The Notes to Financial Statements are an integral part of these statements.

# YELLOWSTONE PUBLIC RADIO/KEMC-FM
(A PUBLIC RADIO ENTITY)
OPERATED BY MONTANA STATE UNIVERSITY-BILLINGS
STATEMENTS OF NET POSITION (CONTINUED)
June 30, 2014
(with comparative totals as of June 30, 2013)

| | 2014 | | | 2013 |
|---|---|---|---|---|
| | Yellowstone Public Radio | Friends of Public Radio, Inc. | Total | Combined Totals |
| LIABILITIES AND NET ASSETS | | | | |
| CURRENT LIABILITIES | | | | |
| Accounts payable and accrued expenses | $ 13,975 | $ - | $ 13,975 | $ 6,183 |
| Unearned revenue | 156,152 | - | 156,152 | 29,802 |
| Current portion, compensated absences | 56,162 | - | 56,162 | 47,725 |
| Total current liabilities | 226,289 | - | 226,289 | 83,710 |
| LONG-TERM LIABILITIES | | | | |
| Compensated absences, net of current portion | 79,194 | - | 79,194 | 73,990 |
| Annuities obligation | - | 17,440 | 17,440 | 30,952 |
| Net OPEB obligation | 169,499 | - | 169,499 | 187,292 |
| Total long-term liabilities | 248,693 | 17,440 | 266,133 | 292,234 |
| Total liabilities | 474,982 | 17,440 | 492,422 | 375,944 |
| NET POSITION | | | | |
| Net investment in capital assets | 45,041 | - | 45,041 | 71,839 |
| Unrestricted | (67,242) | 934,749 | 867,507 | 839,660 |
| Restricted, expendable | - | 1,354,972 | 1,354,972 | 1,169,178 |
| Total net position | (22,201) | 2,289,721 | 2,267,520 | 2,080,677 |
| Total liabilities and net position | $ 452,781 | $ 2,307,161 | $ 2,759,942 | $ 2,456,621 |

# YELLOWSTONE PUBLIC RADIO/KEMC-FM
(A PUBLIC RADIO ENTITY)
OPERATED BY MONTANA STATE UNIVERSITY-BILLINGS
STATEMENTS OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION
Year Ended June 30, 2014
(with comparative totals for the year ended June 30, 2013)

| | 2014 | | | 2013 |
|---|---|---|---|---|
| | Yellowstone Public Radio | Friends of Public Radio, Inc. | Total | Combined Totals |
| OPERATING REVENUES | | | | |
| CPB Stabilization Grant | $ 3,517 | $ - | $ 3,517 | $ 3,670 |
| Donated facilities and direct and indirect administrative support from Montana State University - Billings | 255,970 | - | 255,970 | 218,605 |
| Corporate memberships and underwriting | 241,099 | - | 241,099 | 285,055 |
| WNYC grants | - | - | - | 952 |
| Other operating revenue | 21,507 | - | 21,507 | 21,873 |
| Total operating revenues | 522,093 | - | 522,093 | 530,155 |
| OPERATING EXPENSES | | | | |
| Program services: | | | | |
| Programming and production | 626,336 | - | 626,336 | 621,729 |
| Broadcasting | 272,105 | - | 272,105 | 331,275 |
| Program information | 47,123 | - | 47,123 | 49,881 |
| Total program services | 945,564 | - | 945,564 | 1,002,885 |
| Supporting services: | | | | |
| Management and general | 418,091 | - | 418,091 | 424,082 |
| Fundraising | 119,239 | 11,145 | 130,384 | 131,644 |
| Solicitation and underwriting | 80,905 | - | 80,905 | 79,500 |
| Total supporting services | 618,235 | 11,145 | 629,380 | 635,226 |
| Total operating expenses | 1,563,799 | 11,145 | 1,574,944 | 1,638,111 |
| Operating loss | (1,041,706) | (11,145) | (1,052,851) | (1,107,956) |

The Notes to Financial Statements are an integral part of these statements.

# YELLOWSTONE PUBLIC RADIO/KEMC-FM
(A PUBLIC RADIO ENTITY)
OPERATED BY MONTANA STATE UNIVERSITY-BILLINGS
STATEMENTS OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION
(CONTINUED)
Year Ended June 30, 2014
(with comparative totals for the year ended June 30, 2013)

| | 2014 | | | 2013 |
|---|---|---|---|---|
| | Yellowstone Public Radio | Friends of Public Radio, Inc. | Total | Combined Totals |
| NON-OPERATING REVENUES (EXPENSES) | | | | |
| Community Service Grant from CPB | 128,660 | - | 128,660 | 142,614 |
| Contributions - other | 30,432 | - | 30,432 | 31,863 |
| General appropriation from the University System | 144,540 | - | 144,540 | 144,943 |
| Investment gain (loss) | - | 178,738 | 178,738 | 91,727 |
| Contributions - Friends | 130 | 719,757 | 719,887 | 709,294 |
| Contributions to endowment - Friends | - | - | - | 3,050 |
| Receipt from affiliates | 700,000 | - | 700,000 | 500,000 |
| Payments to affiliates | - | (700,000) | (700,000) | (500,000) |
| Net non-operating revenues | 1,003,762 | 198,495 | 1,202,257 | 1,123,491 |
| Change in net position | (37,944) | 187,350 | 149,406 | 15,535 |
| Net position, beginning of year, as previously reported | (21,694) | 2,102,371 | 2,080,677 | 2,065,142 |
| Prior period adjustment | 37,437 | - | 37,437 | - |
| Net position, beginning of year, restated | 15,743 | 2,102,371 | 2,118,114 | 2,065,142 |
| Net position, end of year | $ (22,201) | $ 2,289,721 | $ 2,267,520 | $ 2,080,677 |

The Notes to Financial Statements are an integral part of these statements.

# YELLOWSTONE PUBLIC RADIO/KEMC-FM
(A PUBLIC RADIO ENTITY)
OPERATED BY MONTANA STATE UNIVERSITY-BILLINGS
STATEMENTS OF CASH FLOWS
Year Ended June 30, 2014
(with comparative totals for the year ended June 30, 2013)

| | 2014 | | | 2013 |
|---|---|---|---|---|
| | Yellowstone Public Radio | Friends of Public Radio, Inc. | Total | Combined Totals |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Cash received from corporate memberships | $ 241,099 | $ - | $ 241,099 | $ 285,055 |
| Cash received from other operating sources | 25,024 | - | 25,024 | 26,495 |
| Cash received from operating activities | 266,123 | - | 266,123 | 311,550 |
| Cash paid for operations | 546,464 | 11,145 | 557,609 | 774,949 |
| Cash paid for compensation and benefits | 557,805 | - | 557,805 | 531,242 |
| Cash paid for operating activities | 1,104,269 | 11,145 | 1,115,414 | 1,306,191 |
| Net cash flows from operating activities | (838,146) | (11,145) | (849,291) | (994,641) |
| CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES | | | | |
| Contributions | 30,562 | 700,463 | 731,025 | 725,590 |
| Contributions - endowment | - | - | - | 3,050 |
| Cash received from CPB grant | 128,660 | - | 128,660 | 142,614 |
| Cash received from Friends | 700,000 | - | 700,000 | 500,000 |
| Cash paid to the Station from Friends | - | (700,000) | (700,000) | (500,000) |
| Cash received from appropriation | 144,540 | - | 144,540 | 144,943 |
| Annuity obligation | - | (13,512) | (13,512) | 4,229 |
| Net cash flows from noncapital and related financing activities | 1,003,762 | (13,049) | 990,713 | 1,020,426 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | |
| Purchases of capital assets | - | - | - | (13,406) |
| Net cash flows from capital and related financing activities | - | - | - | (13,406) |

The Notes to Financial Statements are an integral part of these statements.

# YELLOWSTONE PUBLIC RADIO/KEMC-FM
(A PUBLIC RADIO ENTITY)
OPERATED BY MONTANA STATE UNIVERSITY-BILLINGS
STATEMENTS OF CASH FLOWS (CONTINUED)
Year Ended June 30, 2014
(with comparative totals for the year ended June 30, 2013)

| | 2014 | | | 2013 |
|---|---|---|---|---|
| | Yellowstone Public Radio | Friends of Public Radio, Inc. | Total | Combined Totals |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Purchase of investments | - | (688,174) | (688,174) | (1,234,923) |
| Proceeds from sale of investments | - | 701,288 | 701,288 | 1,137,003 |
| Interest income | - | 21,685 | 21,685 | 17,355 |
| Net cash flows from investing activities | - | 34,799 | 34,799 | (80,565) |
| Net change in cash and cash equivalents | 165,616 | 10,605 | 176,221 | (68,186) |
| Cash and cash equivalents, beginning of year | 208,441 | 991,672 | 1,200,113 | 1,268,299 |
| Cash and cash equivalents, end of year | $ 374,057 | $ 1,002,277 | $ 1,376,334 | $ 1,200,113 |
| AS PRESENTED IN THE ACCOMPANYING BALANCE SHEETS | | | | |
| Cash and cash equivalents, unrestricted | $ 347,772 | $ 913,323 | $ 1,261,095 | $ 1,074,672 |
| Restricted cash equivalents | 26,285 | 88,954 | 115,239 | 125,441 |
| | $ 374,057 | $ 1,002,277 | $ 1,376,334 | $ 1,200,113 |
| RECONCILIATION OF OPERATING LOSS TO NET CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Operating loss | $ (1,041,706) | $ (11,145) | $ (1,052,851) | $ (1,107,956) |
| Adjustments to reconcile operating loss to net cash flows from operating activities: | | | | |
| Depreciation and amortization | 26,798 | - | 26,798 | 96,909 |
| Change in OPEB liability | 19,644 | - | 19,644 | 25,080 |
| Change in assets: | | | | |
| Accounts receivable | 9,938 | - | 9,938 | (24,668) |
| Prepaid expenses | (603) | - | (603) | (39) |
| Change in liabilities: | | | | |
| Accounts payable and accrued expenses | 7,792 | - | 7,792 | (362) |
| Unearned liabilities | 126,350 | - | 126,350 | (1,122) |
| Compensated absences | 13,641 | - | 13,641 | 17,517 |
| Net cash flows from operating activities | $ (838,146) | $ (11,145) | $ (849,291) | $ (994,641) |

The Notes to Financial Statements are an integral part of these statements.

## NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

**Organization**
Yellowstone Public Radio (the Station) is a public radio station (KEMC-FM) funded in part by a grant through the Corporation for Public Broadcasting. The Station is operated by Montana State University-Billings, a separate operational unit of Montana State University (MSU), which is a component unit of the State of Montana, and is included in the financial statements of the State of Montana as part of the Higher Education component unit. Financial activities of MSU-Billings, including the Station, are included in the financial statements of Montana State University.

The Station services Montana and Wyoming by acquiring, producing, and delivering high quality radio programming, production, and community outreach services. These non-commercial services provide educational, informational, and entertaining programming produced nationally and locally and extend the impact of radio through community outreach efforts. The Station relies significantly 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.

**Component Unit**
The Friends of Public Radio, Inc. is a not-for-profit corporation under Internal Revenue Code Section 501(c)(3) and is classified as other than a private foundation. Friends of Public Radio raises funds to provide financial and other support to KEMC-FM, a public radio station licensed by Montana State University-Billings. The support provided includes fund raising, positive community relations, a volunteer system, and related administrative services.

The administration of Friends of Public Radio is provided by a Board of Directors consisting of 30 members, who serve three-year annual terms. Special memberships on the Board of Directors include (1) the Chancellor of Montana State University-Billings, who serves as an ex officio without voting powers, and (2) a representative of KEMC-FM chosen by the Board of Directors upon recommendation of the Chancellor of Montana State University-Billings, selected each year to serve without voting powers.

**Financial Statement Presentation**
The Station's financial statements are presented in accordance with requirements of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments,* and GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities.* Under GASB Statements No. 34 and No. 35, 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 change in net position – with separate presentation for operating and non-operating revenues and expenses – and a statement of cash flows using the direct method.

## NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Financial Statement Presentation (Continued)**
New Accounting Pronouncements – the Station has adopted the provisions of the following GASB pronouncement for fiscal year 2014:

- Statement No. 65, Items Previously Reported as Assets and Liabilities. This statement defines new financial statement items called deferred inflows of resources and deferred outflows of resources, and reclassifies certain items previously classified as assets or liabilities to deferred outflows or deferred inflows, respectively.

**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.

**Cash and Cash Equivalents**
For purposes of the statement of cash flows, short-term investments (including restricted cash) are included in cash equivalents. Short-term investments are recorded at cost, which approximates market value.

**Accounts Receivable**
Management has determined accounts receivable to be fully collectible, and thus, no provision has been made for an allowance for doubtful accounts.

**Pledges Receivable**
Pledges receivable are stated at net realizable value and are due within one year or less. Management has determined pledges receivable to be fully collectible, and thus, no provision has been made for an allowance for doubtful accounts.

**Capital Assets**
Capital assets with a cost, or in the case of donated property – estimated fair value at date of receipt – of $5,000 or more and an estimated useful life of more than one year are capitalized, consistent with Montana State University-Billings' policy.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

| | Years |
|---|---|
| Studio and broadcast equipment | 13 to 31 |
| Satellite | 13 |
| Transmission, antenna, tower | 5 to 20 |
| Furniture and fixtures | 5 |

## NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Investments

The Station accounts for its investments at fair value in accordance with GASB Statement No. 31 *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Investment income is recorded on the accrual basis. All investment income, including changes in unrealized gain (loss) on the carrying value of investments, is reported as a component of investment income.

### 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 position, and as a component of compensation and benefit expense in the statement of revenues, expenses, and change in net position. 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.

### Net Position

The Station's net position is classified as follows:

*Invested in capital assets, net of related debt*: This represents the Station's total investment in capital assets, net of depreciation, and 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 – expendable*: Expendable restricted includes resources in which the Station is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

*Restricted – nonexpendable*: Nonexpendable restricted consists of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, the principal is to be maintained inviolate and in perpetuity and invested for the purpose of producing present and future income, which may either be expended or added to principal.

*Unrestricted*: Unrestricted represents resources derived from operating grants, state appropriations, corporate memberships and underwriting, and unrestricted contributions. These resources are used for transactions relating to the general operations of the Station and may be used at the discretion of the governing board to meet current expenses for any purpose.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the Station's policy is to apply the expense on a case by case basis.

## NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Classification of Revenues**
The Station has classified its revenues as either operating or non-operating revenues according to the following criteria:

*Operating revenues*: Operating revenues include activities that have the characteristics of exchange transactions, such as (1) operating grants, (2) support from Montana State University-Billings, and (3) corporate memberships and underwriting.

*Non-operating revenues*: Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as community service grants from CPB, gifts and contributions, state appropriations, and other revenue sources that are defined as non-operating revenues by GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Government Entities that use Proprietary Fund Accounting*, and GASB No. 34.

**Community Service Grants**
The Corporation for Public Broadcasting (CPB) is a private, non-profit, 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. KEMC-FM uses these funds for purposes relating primarily to production and acquisition of programming. Also, the grants may be used to sustain activities begun with CSGs awarded in prior years.

The grants are reported on the accompanying financial statements as unrestricted non-operating funds; however, certain guidelines must be satisfied in connection with application for and use of the grants to maintain eligibility and compliance requirements.

These guidelines pertain to the use of grant funds, record keeping, audits, and financial reporting and licensee status with the Federal Communications Commission.

## NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Donated Facilities, Materials, and Services

Donated facilities from Montana State University-Billings 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 revenues, expenses, and change in net position. Administrative support from Montana State University-Billings consists of indirect costs incurred by the University on behalf of the Station, determined by establishing cost pools, which are grouped into functional categories such as institutional support and physical plant support, which is then allocated, based on the Station's direct costs in accordance with guidelines established by the 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.

### 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 change in net position. 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 Station is 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 Station is no longer subject to examinations by federal tax authorities for years before 2011.

### Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require 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 reported period. Actual results could differ from those estimates.

### Subsequent Events

Management has evaluated subsequent events through January 12, 2015, the date which the financial statements were available for issue.

## NOTE 2. CASH AND CASH EQUIVALENTS

Cash balances are maintained (1) in pooled funds with other University funds and (2) at a local financial institution. FDIC coverage is limited to $250,000 per account holder. From time to time, certain bank accounts that are subject to limited FDIC coverage exceed their insured limits.

Because of the pooled cash concept, it is not possible to allocate the Station's share of the pooled cash balances into the various risk categories.

## NOTE 3. CAPITAL ASSETS

Activity for capital assets for the year ended June 30, 2014, is summarized below:

| | June 30, 2013 | Additions | Retirements | June 30, 2014 |
|---|---|---|---|---|
| Studio and broadcast equipment | $ 159,202 | $ - | $ - | $ 159,202 |
| Satellite | 13,349 | - | - | 13,349 |
| Transmission, antenna, tower | 915,471 | - | (6,154) | 909,317 |
| Furniture and fixtures | 32,937 | - | (16,465) | 16,472 |
| Accumulated depreciation | (1,049,119) | (26,798) | 22,619 | (1,053,298) |
| | $ 71,840 | $ (26,798) | $ - | $ 45,042 |

Depreciation expense was charged to functions as follows:

| | |
|---|---|
| Broadcasting | $ 25,736 |
| Management and general | 1,062 |
| | $ 26,798 |

## NOTE 4. PENSION PLANS

The Station's employees are covered under the Montana Public Employees' Retirement System (PERS) or the Montana Teachers' Retirement System (TRS). PERS includes options as either a defined benefit or a defined contribution plan, and TRS is a defined benefit retirement plan. PERS and TRS are multiple-employer, cost sharing plans.

The following information, related to these pension plans, is related to activity of KEMC-FM. For information regarding pension plans related to KEMC-FM, the information can be found in Montana State University-Billings' annual financial report.

## NOTE 4. PENSION PLANS (CONTINUED)

The amounts contributed to the Plans during the year ended June 30, 2014, were equal to the required contribution each year. The amounts contributed by KEMC-FM and its employees were:

| | PERS | TRS | Percentage of required contribution |
|---|---|---|---|
| Fiscal year ended June 30, 2014 | $ 29,420 | $ 3,284 | 100% |
| Fiscal year ended June 30, 2013 | 25,092 | 3,187 | 100% |
| Fiscal year ended June 30, 2012 | 23,365 | 3,121 | 100% |

The following is a schedule of contributions to the Plans:

| | Contributions (as a percentage of salary) | |
|---|---|---|
| | Employee | Employer |
| Public Employees' Retirement System (PERS) | 7.900% | 8.170% |
| Teachers' Retirement System (TRS) | 8.150% | 10.850% |

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 valuation. 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 mandatory system established in 1945 provides retirement services to substantially all public employees. Benefit eligibility is age 60 with at least 5 years of service; age 65 regardless of service; or 30 years of service regardless of age. Actuarially reduced benefits may be taken with 25 years of service or at age 50 with at least 5 years of service. Monthly retirement benefits are determined by taking 1/56 times the number of years of service times the final average salary. 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 Division, PO Box 200231, Helena, MT 59620-0131. They can be reached at 406-444-3154.

## NOTE 4. PENSION PLANS (CONTINUED)

**Teachers' Retirement System (TRS)**
This mandatory system – established in 1937 and governed by Title 19, Chapter 4 of the Montana Code Annotated, as a cost-sharing, multi-employer defined benefit pension plan – 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. Rights are vested after 5 years of 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, PO Box 200239, Helena, MT 59620-0139.

## NOTE 5. INVESTMENTS

Investments consist of securities within the Fund 2000 restricted term endowment and the Friends of Public Radio agency account. The Station records the investments at fair value, with changes in value shown as a component of current-year, non-operating income. A comparison of cost to fair value, with the cumulative unrealized gain, follows:

| | Historical Cost | Fair Value | Cumulative Unrealized Gain |
|---|---|---|---|
| Investments | $ 1,048,299 | $ 1,181,200 | $ 132,901 |

*Interest rate risk*: This is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Station has an investment policy that limits investment maturities for any single security to 20 years or less. Information about the exposure of the Station's investments to this risk at June 30, 2014, using the segmented time distribution model is as follows:

## NOTE 5. INVESTMENTS (CONTINUED)

| | | Investment Maturities | | | |
|---|---|---|---|---|---|
| Investment | Fair Value | Less Than 1 Year | 1-5 Years | 6-10 Years | Over 10 Years |
| U.S. Treasuries | $ 101,723 | $ - | $ 47,989 | $ 39,278 | $ 14,456 |
| U.S. Government Agencies | 46,309 | - | 46,309 | - | - |
| Corporate Bonds | 122,975 | 2,064 | 41,403 | 65,483 | 14,025 |
| Mutual Funds: | | | | | |
| Domestic | 109,786 | 109,786 | - | - | - |
| Foreign | 39,609 | 39,609 | - | - | - |
| Stocks: | | | | | |
| Domestic | 504,816 | 504,816 | - | - | - |
| Foreign | 190,048 | 190,048 | - | - | - |
| Fixed Income | 55,069 | 55,069 | - | - | - |
| Other Assets | 10,865 | 10,865 | - | - | - |
| Total | $ 1,181,200 | $ 912,257 | $ 135,701 | $ 104,761 | $ 28,481 |

*Credit risk*: Generally, credit risk is the risk that an issuer of a debt type investment will not fulfill its obligation to the holder of the investment. This is measured by assignment of a rating by a nationally recognized rating organization. Presented below are the ratings for each investment type at June 30, 2014:

| | Fair Value | AAA to Aa3 | A1 to A3 | Baa1 - Baa3 | Unrated |
|---|---|---|---|---|---|
| U.S. Treasuries | $ 101,723 | $ 101,723 | $ - | $ - | $ - |
| U.S. Government Agencies | 46,309 | 46,309 | - | - | - |
| Corporate Bonds | 122,975 | 5,081 | 44,723 | 73,171 | - |
| Mutual Funds: | | | | | |
| Domestic | 109,786 | - | - | - | 109,786 |
| Foreign | 39,609 | - | - | - | 39,609 |
| Stocks: | | | | | |
| Domestic | 504,816 | - | - | - | 504,816 |
| Foreign | 190,048 | - | - | - | 190,048 |
| Fixed Income | 55,069 | - | - | - | 55,069 |
| Other Assets | 10,865 | - | - | - | 10,865 |
| Total | $ 1,181,200 | $ 153,113 | $ 44,723 | $ 73,171 | $ 910,193 |

A paid-up life insurance policy was donated in a prior year in which Friends of Public Radio is the beneficiary. The cash value of the policy at June 30, 2014, amounted to $80,548 with a death benefit of $131,424.

## NOTE 5. INVESTMENTS (CONTINUED)

The calculation of realized gains is independent of the calculation of the net increase in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year. Current year investment income consists of the following:

| | | |
|---|---|---|
| Interest and dividends | $ | 23,681 |
| Unrealized gain | | 58,114 |
| Realized gain | | 96,943 |
| | $ | 178,738 |

## NOTE 6. DEFERRED CHARITABLE ANNUITIES

The Station is subject to certain provisions of the Montana Code Annotated, which specify that a charitable organization may only issue a “qualified charitable gift annuity” if it meets the following statutory requirements on the date of the annuity agreement: (1) has a minimum of $300,000 net worth or has a minimum of $100,000 in unrestricted cash, cash equivalents, or publicly traded securities, exclusive of the assets funding the annuity agreement; (2) has been in continuous operation for at least three years or is a successor or affiliate of a charitable organization that has been in continuous operation for at least three years; (3) maintains a separate annuity fund with at least one-half the value of the initial amount transferred for outstanding annuities. If the charitable organization cannot meet the requirements, the issuance of qualified charitable gift annuity by a charitable organization must be commercially insured by a licensed insurance company that is qualified to do business in Montana. For the year ended June 30, 2014, the Station met the requirements to issue qualified charitable gift annuities.

Friends of Public Radio, Inc. have received deferred charitable annuity gifts with a total principal value of $109,698. An annuity obligation liability has been recorded in the amount of $17,440 at June 30, 2014, representing the donors’ investments in the contract at annuity rates ranging from 5.0% to 15.0% and annuity payment starting dates ranging from 1.5 to 32.5 years.

## NOTE 7. LONG-TERM LIABILITIES

Activity for long-term liabilities for the year ended June 30, 2014, is summarized below:

| | June 30, 2013 | Additions | Reductions | June 30, 2014 |
|---|---|---|---|---|
| Compensated absences | $ 121,715 | $ 64,143 | $ (50,502) | $ 135,356 |
| Less: current portion | (47,725) | (37,985) | 29,548 | (56,162) |
| | $ 73,990 | $ 26,158 | $ (20,954) | $ 79,194 |
| Annuities obligation | $ 30,952 | $ 1,723 | $ (15,235) | $ 17,440 |
| OPEB obligation | $ 187,292 | $ - | $ (17,793) | $ 169,499 |

## NOTE 8. LEASES

**Transmitter Site Ground Leases**

The Station maintains leases in certain real property for transmitter or translator sites. At June 30, 2014, the following leases were in effect:

| | Commencement | Expiration | Monthly Lease Payment |
|---|---|---|---|
| Miles City, MT | 3/1/2007 | 3/1/2017 | $ 35 |
| Yellowstone County, MT | 6/11/2003 | None | $ 450 |
| Sheridan County, WY | 6/1/1994 | 5/31/2024 | $ 1 |
| Bozeman, MT | 1/1/1991 | None | $ 311 |
| Terry, MT | 3/1/1991 | None | $ 60 |
| Worland, WY | 8/15/1990 | None | $ 279 |
| Cedar Mountain, WY | 7/1/1986 | None | $ 100 |
| Medicine Mountain, WY | 7/1/1986 | None | $ 100 |
| Sweetgrass Hills, WY | 7/1/1986 | None | $ 175 |
| Shelby, MT | 12/12/1992 | None | None |
| Forsyth, MT | 7/1/1997 | 2/28/2015 | $ 150 |
| Broadus, MT | 7/1/1996 | None | None |
| Ashland, MT | 7/1/1996 | None | None |
| Sheridan, WY | 12/1/1997 | None | $ 151 |

## NOTE 8. LEASES (CONTINUED)

| | Commencement | Expiration | Monthly Lease Payment |
|---|---|---|---|
| Johnson Country, WY | 4/1/2009 | 3/31/2013 | $ 1,500 per year |
| Bozeman, MT | 6/5/2003 | 6/4/2013 | $ 125 |
| Wolf Point, MT | 9/16/2009 | 9/16/2016 | $ 1 per day |
| Big Timber, MT | 7/1/2010 | 5/19/2017 | $ 275 |
| Great Falls, MT | 10/1/2012 | 9/30/2017 | $ 481 |

**Bozeman Studio**

The Station leases studio space from the Bozeman Public Library in Bozeman, Montana, with an annual lease payment of $1,500 and the lease expires December 31, 2016.

Total lease expense for the Station amounted to $30,523 for the year ended June 30, 2014. Minimum lease payments for the next five years are as follows:

| For the year ending June 30, | |
|---|---|
| 2015 | $ 24,840 |
| 2016 | 22,140 |
| 2017 | 21,437 |
| 2018 | 13,730 |
| 2019 | 12,289 |
| Thereafter | 122,889 |
| | $ 217,325 |

## NOTE 9. RELATED PARTY TRANSACTIONS AND IN-KIND CONTRIBUTIONS

During the year ended June 30, 2014, Yellowstone Public Radio/KEMC-FM received $700,000 in monetary support from Friends of Public Radio.

The following in-kind contributions were recorded in the Station's financial statements for the year ended June 30, 2014:

| | |
|---|---|
| University indirect administrative support | $ 238,672 |
| Occupancy | 17,298 |
| Total related party in-kind contributions | 255,970 |
| Other in-kind contributions | 30,432 |
| Total | $ 286,402 |

## NOTE 10. COMMITMENTS AND CONTINGENCIES

**Funding Sources**
The Station operates their programs with the aid of funding primarily from the following sources:

1) CPB grants
2) Appropriations from the Montana University System
3) Contributions from Friends of Public Radio, Inc.
4) Corporate membership and 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.

**CPB Grant**
The Station must use its CSGs within two one-year grant periods. Any unexpended funds must be returned to the 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.

**Other**
The Station faces a number of risks of loss, including (a) damage to and loss of property and contents, (b) employee torts, and (c) workers' compensation. The Station, as a department of the Montana University System, participates in the risk management programs of the Montana University System.

## NOTE 11. MONTANA COMMUNITY FOUNDATION

Donations were received in prior years through the Montana Community Foundation (MCF) to establish an irrevocable endowment fund on the books of the MCF, known as the "Friends of Public Radio - Fund 2000 Endowment Fund." The principal of the Fund, along with net capital appreciation, shall be kept and invested by MCF, and net income from the fund is distributable to Friends of Public Radio at least annually. The value of the fund at June 30, 2014, amounted to $89,047.

## NOTE 12. TERM ENDOWMENT - FUND 2000

A term endowment, known as "Yellowstone Public Radio Fund 2000," was established to ensure future generations' access to KEMC's coverage area in Montana and Wyoming. The primary mission of this fund is to provide permanent financial shelter from KEMC against sudden loss of federal funding, unforeseen emergencies, and natural disasters.

## NOTE 12. TERM ENDOWMENT - FUND 2000 (CONTINUED)

The fund will be continually reinvested to provide ongoing support for Yellowstone Public Radio. Earnings from the fund are unrestricted, but Board approval is necessary for withdrawal. The principal can be used, if necessary, for these special circumstances:

- To pay for the deductible of insurance costs, to repair, or replace damaged equipment/facilities in the event of a natural disaster or other emergency
- To provide emergency (supplementary) funds in the event of sudden changes in state or federal appropriations for public radio
- To expand and enhance access to public radio

## NOTE 13. OTHER POST-EMPLOYMENT BENEFITS (OPEB)

**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 interest of the MUS, has directed the Office of the Commissioner of Higher Education (OCHE) to provide access to health insurance benefits beyond age 65. Eligible University retirees may participate in the health insurance plan, provided that they contribute to the cost of the plan.

**Eligibility**
Retirees who are eligible to receive retirement benefits from TRS or 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 $575 - $687 per month, depending on the level of deductible and other selected plan features. Upon reaching age 65 (Medicare eligibility), monthly participation premiums range from $243 - $291 for an individual retiree. Coverage is also extended to dependents and surviving dependents of the employee. Retirees who select a non-MUS Medicare Advantage Program are not considered in the above rates.

**Financial and plan information**
The MUS Group Benefits Plan does not issue a stand-alone financial report, but is subject to audit as part of the State of Montana's Basic Financial Statements, included in the 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, PO Box 200102, Helena, MT 59620-0102.

## NOTE 13. OTHER POST-EMPLOYMENT BENEFITS (OPEB) (CONTINUED)

**Financial and plan information (Continued)**
A schedule of funding progress contained in the Required Supplementary Information immediately following the notes to the financial statements presents multi-year trend information.

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 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. The most recent actuarial determination was based on plan information as of July 1, 2013. At that time, the number of active University participants in the health insurance plan was 3,513. The total number of inactive (retiree and dependent) participants was 979. During the years ended June 30, 2014, 2013, and 2012, the University contributed $35,014.278, $31,509,597, and $31,006,741, respectively, which was calculated based on a contribution rate per actively employed participants, whose annual covered payroll totaled $201,051,981 as of the last actuarial valuation. Included within this amount, the University is deemed to have contributed $862,890, $474,723, and $106,919, for retirees or their dependents during 2014, 2013, and 2012, respectively.

As of the latest actuarial evaluation, the accrued liability for retiree health benefits was $49,869,358, all of which was unfunded. The percentage of annual OPEB cost contributed to the plan was 16%, 7%, and 2% for 2014, 2013, and 2012, respectively. The funded status of the plan as of June 30 was 0% for each of the previous three years.

The OPEB obligations for MSU, including MSU-Billings, for 2014, 2013, and 2012 are:

| Year ended June 30, | 2014 | Restated 2013 | Restated 2012 |
|---|---|---|---|
| Annual Required Contribution | $ 5,002,217 | $ 6,469,002 | $ 6,205,186 |
| Interest on net OPEB obligation | 1,984,489 | 1,714,570 | 1,442,728 |
| Amortization of net OPEB obligation | (1,556,462) | (1,344,761) | (1,131,551) |
| Annual OPEB cost | 5,430,244 | 6,838,811 | 6,516,363 |
| Contributions made | (862,890) | (474,723) | (106,919) |
| Increase to net OPEB obligation | 4,567,354 | 6,364,088 | 6,409,444 |
| Net OPEB obligation - beginning of year | 46,831,891 | 40,467,803 | 34,058,359 |
| Net OPEB obligation - end of year | $ 51,399,245 | $ 46,831,891 | $ 40,467,803 |

## NOTE 13. OTHER POST-EMPLOYMENT BENEFITS (OPEB) (CONTINUED)

**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 marital status at retirement, mortality rates, and retirement age:

| | |
|---|---|
| Method | 30-year, level percent of pay amortization on an open basis |
| Interest/Discount rate | 4.25% |
| Projected payroll increases | 2.50% |
| Healthcare cost trend rate | -8.00% (Medical and Prescription) for the initial year;<br>-Rates decreasing from 7.5% to 5.0% for years 2014-2019<br>-4.50% (Medical and Prescription) in 2020 and beyond |
| Participation | 55.00% 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. Calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and on the pattern of sharing of costs between the employer and plan members to that point. Calculations reflect a long-term perspective, and as such, may include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

## NOTE 14. PRIOR PERIOD ADJUSTMENT

A prior year restatement was made because it was discovered that the University had over recorded its OPEB liability in prior years and therefore the portion allocated to the Station was also not correct. As a result, the beginning net position as previously reported for the year ended June 30, 2013 was increased by $37,437.

# REQUIRED SUPPLEMENTARY INFORMATION

YELLOWSTONE PUBLIC RADIO/KEMC-FM
(A PUBLIC RADIO ENTITY)
OPERATED BY MONTANA STATE UNIVERSITY-BILLINGS
SCHEDULE OF FUNDING PROGRESS FOR OTHER POST
RETIREMENT BENEFITS PLAN
Year ended June 30, 2014

Schedule of Funding Progress for Other Post Retirement Benefits Plan:

| Actuarial Valuation Date | Actuarial Value of Assets ( a ) | Actuarial Accrued Liability (AAL) ( b ) | Unfunded AAL (UAAL) ( b - a ) | Funded Ratio ( a / b ) | Covered Payroll ( c ) | UAAL as a Percentage of Covered Payroll ( (b - a) / c ) |
|---|---|---|---|---|---|---|
| July 1, 2009 | $ - | $ 92,634,783 | $ 92,634,783 | 0.00% | $ 198,691,532 | 46.62% |
| July 1, 2011 | $ - | $ 55,421,239 | $ 55,421,239 | 0.00% | $ 183,870,217 | 30.14% |
| July 1, 2013 | $ - | $ 49,869,358 | $ 49,869,358 | 0.00% | $ 201,051,981 | 24.80% |

**Other Post-Employment Benefits (OPEB) Trend Data**

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. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. See assumptions below.

| Actuarial Valuation Date | Interest Rate | Payroll Increase | Participant Percentage |
|---|---|---|---|
| July 1, 2009 | 4.25% | 2.50% | 55% |
| July 1, 2011 | 4.25% | 2.50% | 55% |
| July 1, 2013 | 4.25% | 2.50% | 55% |

# SUPPLEMENTARY INFORMATION

# YELLOWSTONE PUBLIC RADIO/KEMC-FM
(A PUBLIC RADIO ENTITY)
OPERATED BY MONTANA STATE UNIVERSITY-BILLINGS
RECONCILIATION OF FINANCIAL STATEMENT INCOME AND EXPENSE TO THE CORPORATION FOR PUBLIC BROADCASTING (CPB) REPORT
Year ended June 30, 2014

Total support and revenue per statement of revenues, expenses, and change in net position:

| | |
|---|---|
| Operating revenue | $ 522,093 |
| Non-operating revenue | 1,202,257 |
| | 1,724,350 |
| Less: | |
| Net investment income | (155,057) |
| In-kind contributions ineligible as NFFS | (400) |
| Other revenue ineligible as NFFS | (25,024) |
| CPB Grant deduction | (128,660) |
| Total non-federal financial support per the CPB Report (Schedule of Non-Federal Financial Support) | $ 1,415,209 |

Total expense per statement of revenues, expenses, and change in net position:

| | |
|---|---|
| Operating expenses | $ 1,574,944 |
| Total expenditures per the CPB Report (Schedule E, line 10) | $ 1,574,944 |