FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

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

June 30, 2014 and 2013

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CONTENTS

INTRODUCTION

The management's discussion and analysis (MD&A) provides an overview of KUFM-FM Radio's (KUFM) financial position and activities for the fiscal years ended June 30, 2014 and 2013. The MD&A emphasizes the current year and identifies any economic or financial factors which could have a significant impact on future operations. This discourse has been prepared by management and should be read in conjunction with the financial statements and notes following this section.

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

USING THE FINANCIAL STATEMENTS

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

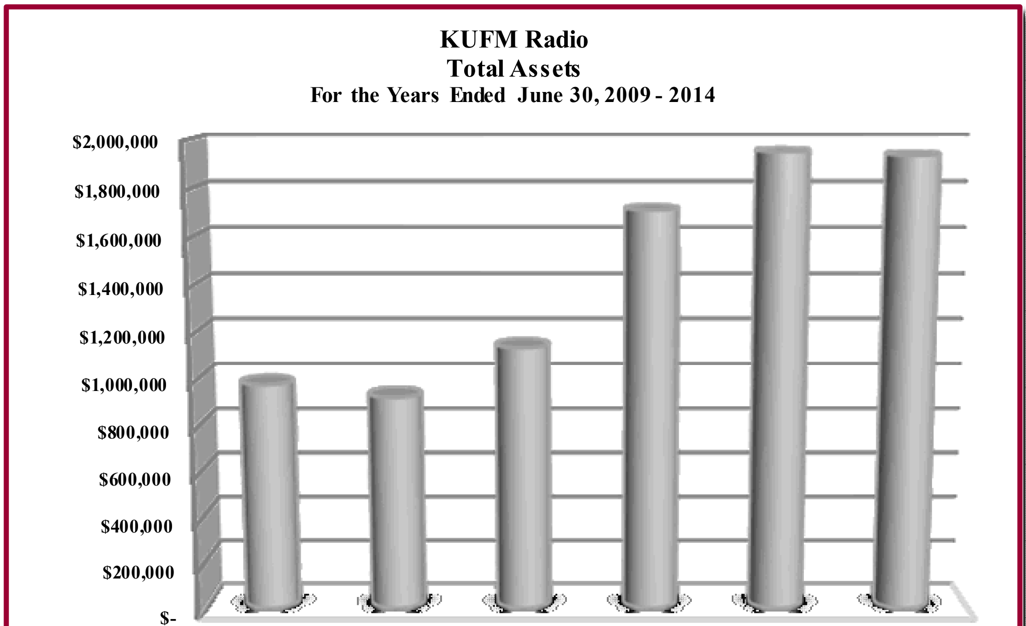
The financial statements are prepared using the accrual basis of accounting, whereas revenues are recognized when services are provided and expenses are recognized when goods or services are received, regardless of when cash is exchanged.

FINANCIAL HIGHLIGHTS AND ANALYSIS

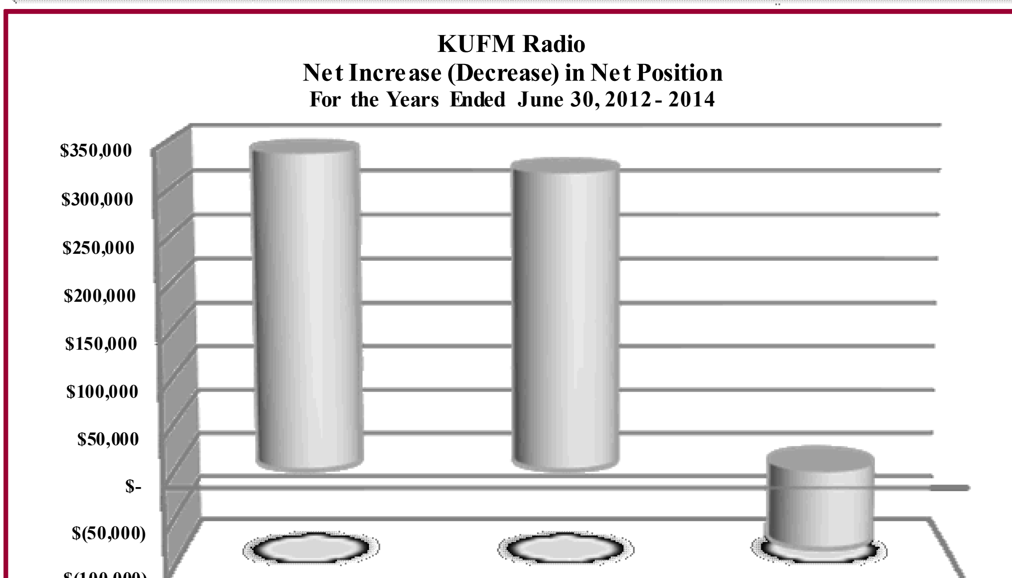
KUFM's net financial position declined in fiscal year 2014, decreasing by $86,144, or around 6.0%. Even so, KUFM's net financial position has increased by over 95% since FY11, or by about $659,000. In FY14, operating revenues declined in almost all categories, particularly private gifts and capital grants, which decreased by $462,208 and $111,938, respectively. The decline is primarily because of a significant shortfall in the Spring 2014 fund drive and a decrease in capital funding due to the completion of major capital projects during the year. In response to the decrease in operating and non-operating revenues, KUFM reduced operating expenses by $224,059, and relied on UM Foundation reserves to cover most of the remaining revenue shortfall.

FINANCIAL HIGHLIGHTS AND ANALYSIS (continued)

The following charts illustrate the current year changes and financial position of KUFM for prior years.



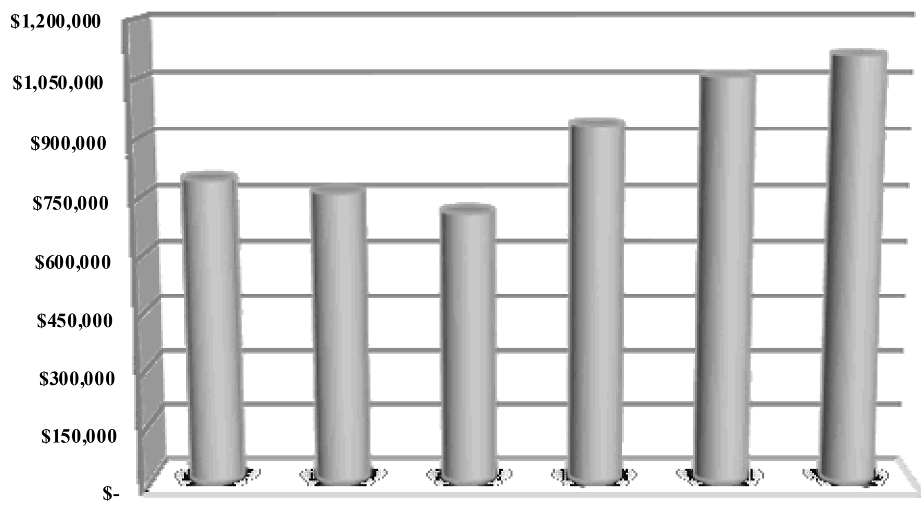
	FY09	FY10	FY11	FY12	FY13	FY14
Total Assets	$972,137	$918,117	$1,131,408	$1,708,400	$1,948,557	$1,934,040



	FY12	FY13	FY14
Net Inc. (Dec.)	$339,781	$319,368	$(86,144)

FINANCIAL HIGHLIGHTS AND ANALYSIS (continued)

KUFM Radio
Cash and Cash Equivalents
For the Years Ended June 30, 2009 - 2014



	FY09	FY10	FY11	FY12	FY13	FY14
Cash	$793,644	$760,574	$709,134	$932,590	$1,057,616	$1,111,093

FINANCIAL HIGHLIGHTS AND ANALYSIS (continued)

Statement of Net Position

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

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

	2014	Restated 2013	Restated 2012
ASSETS			
Total current assets	$ 1,240,628	$ 1,196,238	$ 1,066,021
Total non-current assets	693,412	752,319	642,378
	$ 1,934,040	$ 1,948,557	$ 1,708,399
LIABILITIES			
Total current liabilities	$ 310,347	$ 233,295	$ 332,330
Total non-current liabilities	354,955	360,380	340,556
Total liabilities	665,302	593,675	672,886
NET POSITION			
Net invested in capital assets	500,079	568,178	571,230
Restricted	191,639	168,980	47,034
Unrestricted	577,020	617,724	417,249
Total net position	1,268,738	1,354,882	1,035,513
	$ 1,934,040	$ 1,948,557	$ 1,708,399

<u>Events or developments which occurred during 2014</u>

- Current assets increased by over $44,000, due primarily to an increase in cash and cash equivalents and prepaid expenses of $53,000 and $23,000, respectively. Offsetting the increases in current assets was a $31,000 decline in accounts receivable, which reflects a drop in pledges due to the poor FY14 spring fund raising drive.

- Noncurrent assets decreased by almost $59,000 in FY14 due primarily to a $76,000 decline in capital assets from the increase in accumulated depreciation. This decrease capital assets was offset by an almost $17,000 increase in endowment investments due primarily to an increase in fair market value.

FINANCIAL HIGHLIGHTS AND ANALYSIS (continued)

- Current liabilities increased by over $77,000 due to a large extent from increases in accounts payable and accrued liabilities ($18,000), property held in trust ($36,000) and deferred revenue ($30,000). KUFM solicits funds for Great Falls Public Radio Association – KGPR and records donations received on their behalf in property held in trust. The increase in deferred revenue is primarily from CPB Community Service Grant revenue received in FY14 for fiscal year 2015.

- Noncurrent liabilities decreased by $5,400 due largely to a reduction on advances from primary government of $7,700 and a decrease in compensated absences of almost $17,000. The FY14 increase in the liability for other postemployment benefits (OPEB) of $19,000, calculated in accordance with GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, offset the decreases to accrued liabilities described above.

- The net position of KUFM declined by over $86,000 in FY14 due largely to a decline in fund raising revenue during the year. To help mitigate the decrease in revenues, KUFM reduced operating expenses, and relied on UM Foundation reserves to cover most of the remaining revenue shortfall. The beginning net position in FY14 was restated to correct the other postemployment benefit liability balance, which resulted in an increase to net position of 43,050.

<u>Events or developments which occurred during 2013</u>

- Current assets increased by over $130,000 in FY13 primarily from an increase in cash and cash equivalents of over $125,000, due largely to an increase in private gifts from successful fund raising efforts during the year. The net increase in other current asset classifications was slightly more than $5,000.

- Noncurrent assets increased by almost $110,000 primarily due to an increase in endowed investments of $119,000, offset by a net decrease in capital assets of $9,000. Capital asset additions in FY13 totaled $60,000, which was offset by increase in accumulated depreciation of $69,000.

- In FY13, current liabilities declined by $137,000 largely due to a $130,000 decrease in accounts payable and accrued liabilities, and a decrease in unearned revenue of $17,000. Construction on two transmission facilities contributed to higher balances in these classifications at the end of FY12. The projects were completed in FY13 and no similar size projects were started during the year.

- Noncurrent liabilities increased by almost $27,000 (restated) due largely to a $28,000 (restated) increase for FY13 in the liability for other postemployment benefits (OPEB) calculated in accordance with GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* offset by a combine decrease of $8,000 in advances from primary government and accrued compensated absences.

- KUFM's net position improved in FY13 by almost $319,000 (restated), largely due to a substantial increase in private gifts from its successful fund raising efforts, and a $120,000 endowed contribution received during the year. The beginning net position in FY13 was restated to correct the other postemployment benefit liability balance, which resulted in an increase to net position of $30,068.

FINANCIAL HIGHLIGHTS AND ANALYSIS (continued)

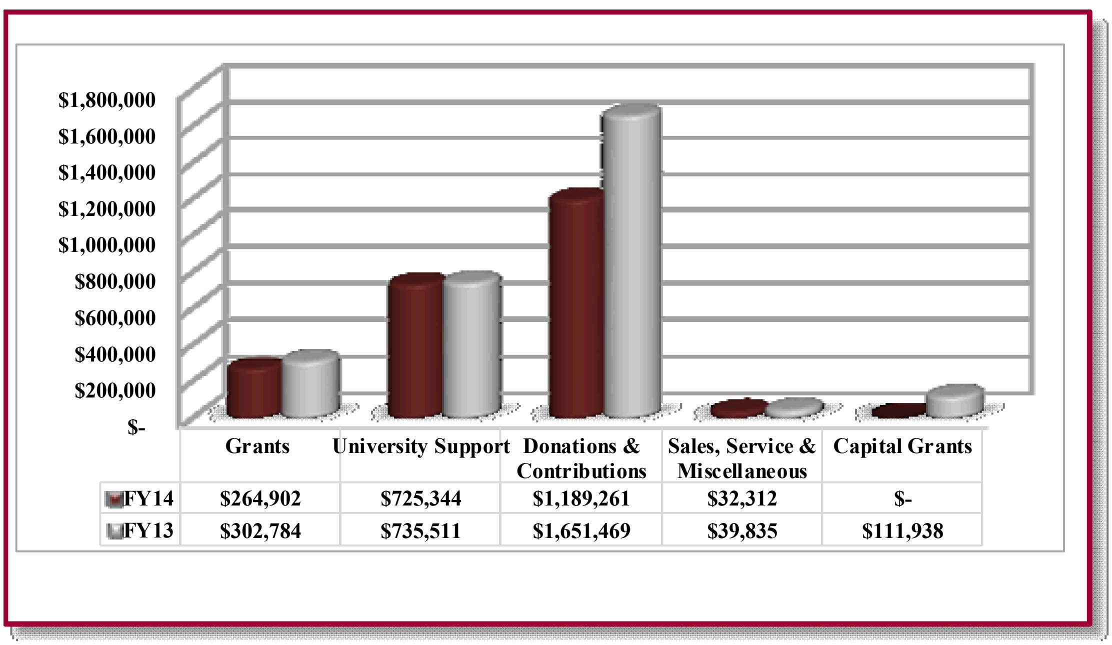
Statement of Revenues, Expenses and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position present the results of KUFM's operational activities. In accordance with GASB, revenues and expenses are classified as either operating or non-operating. Operating revenues and expenses are the inflows or uses of funds related directly to fulfilling the entity's purpose (i.e. providing public radio services). Non-operating revenues are revenues earned for which goods or services are not provided and include private gifts and investment income. Non-operating expense is interest on long-term debt. The FY13 and FY12 operating expenses and beginning net position were restated because of the correction to the other postemployment liability.

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

	2014	Restated 2013	Restated 2012
Operating revenue	$ 990,456	$ 1,068,395	$ 1,025,618
Operating expenses	2,297,750	2,521,809	2,312,382
Operating loss	(1,307,294)	(1,453,414)	(1,286,764)
Non-operating revenues	1,221,150	1,660,844	1,210,652
Income (loss) before other revenues	(86,144)	207,430	(76,112)
Capital grants and gifts	-	111,938	415,893
Net change in net position	(86,144)	319,368	339,781
Net position, beginning of year, as previously reported	1,354,882	999,935	665,664
Net position, prior period adjustment	-	35,579	30,068
Net position, end of year	$ 1,268,738	$ 1,354,882	$ 1,035,513

The following chart provides a graphical representation of revenues by source for fiscal years 2014 and 2013:



FINANCIAL HIGHLIGHTS AND ANALYSIS (continued)

Events or developments which occurred during 2014

- KUFM's net position declined by over $86,000 in FY14 in contrast to the $319,000 increase in net position realized in the prior year. In FY14, revenues declined in almost all categories, particularly private gifts and capital grants, which decreased by $462,208 and $111,938, respectively. The decline is primarily because of a significant shortfall in the Spring 2014 fund drive and a decrease in capital funding due to the completion of major capital projects during the year. In response to the decrease in operating and non-operating revenues, KUFM reduced operating expenses by $224,059, and used UM Foundation reserves to cover most of the remaining revenue shortfall.

Events or developments which occurred during 2013

- The increase in KUFM's net position of $319,000 (restated) is slightly less than the $340,000 (restated) increase in net position realized in the prior year. The improvement in FY13 was primarily due to an increase in revenue from private gifts received through fund raising of almost $445,000, and an endowed contribution of $120,000, offset by an increase in operating expenses of over $209,000 (restated). Capital grants and gifts declined by $304,000 due to the completion of the signal extension projects and facility improvement projects in early FY13.

Statement of Cash Flows

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

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

	2014	2013	2012
CASH PROVIDED BY (USED IN)			
Operating activities	$ (1,179,519)	$ (1,455,647)	$ (958,968)
Noncapital financing activities	1,225,521	1,632,072	1,195,036
Capital and related financing activities	(7,824)	57,958	(15,806)
Investing activities	15,299	(109,357)	3,194
Net change in cash and cash equivalents	53,477	125,026	223,456
Cash and cash equivalents – beginning of year	1,057,616	932,590	709,134
Cash and cash equivalents – end of year	$ 1,111,093	$ 1,057,616	$ 932,590

FINANCIAL HIGHLIGHTS AND ANALYSIS (continued)

Events or developments which occurred during 2014

Specific events or cash transactions that had a significant influence on the increase in cash (a net cash inflow) of approximately $53,000 during fiscal year 2014 were:

- Cash used in operating activities declined by over $276,000, decreasing from $1,455,000 cash used in FY13 to $1,799,000 cash used in FY14. A reduction of $310,000 in cash used for operating expenses accounts for most of the decline, which was partly in response to a significant decline in donations from fund raising efforts.

- Cash provided by financing activities declined by almost $407,000 due primarily to a significant shortfall in the Spring 2014 fund drive. KUFM did not receive or use cash to acquire capital assets during the fiscal year.

- Cash provided by investing activities of over $15,000 is primarily from endowment investment earnings.

Events or developments which occurred during 2013

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

- Cash used in operating activities increased by $496,000, increasing from $959,000 cash used in FY12, to $1,456,000 cash used in FY13. Much of the increase is due to scheduled increases in payments to employees for salaries and benefits, offset only slightly by increases in cash provided by operating revenues.

- Cash provided by financing activities increased by $511,000 in FY13, or a 43% increase over the prior year. Much of the increase was from $437,000 of additional cash provided by fund raising efforts in FY13. The remaining increase in cash from financing activities was largely from a $351,000 decline in cash used to purchase capital assets, offset by a $277,000 decline in cash provided by capital gifts.

- In FY13, KUFM used $119,000 of cash to purchase investments, which was offset by $10,000 of cash received from investment earnings, accounting for the $109,000 used in investing activities during the year.

ECONOMIC OUTLOOK

- The Broadcast Media Center (BMC) and the UM Foundation funded a Major Giving Officer position for the BMC. This position is an important response to major financial needs for MTPR in the coming years.

FINANCIAL HIGHLIGHTS AND ANALYSIS (continued)

- Corporation for Public Broadcasting (CPB) funding has been level for the past two years and is projected to remain level for the next two. Politics may intervene to change those projections. Even at level funding, federal support is eroded by inflation. MTPR's strategic plan calls for reserve funding equal to two years of federal funding to accommodate any sudden loss of CPB appropriation.

- The lack of significant federal infrastructure grants continues to haunt the long-term viability of the MTPR infrastructure. Equipment replacement and system expansion is inevitable. The strategic plan addresses this conundrum, suggesting the development of an Opportunity Fund of $400,000.

- A significant shortfall in the Spring 2014 fund drive will put stress on MTPR reserves in the UM Foundation. The FY 2016 budget must include plans to replace Foundation revenue used to balance the FY2015 budget. Station management will continue efforts to evaluate ways to right-size the organization. MTPR personnel cost continues to grow as a percentage of expenses. Maintaining the relatively high number of .5 FTE and resulting health benefit costs continues to be a challenge. Funding for new positions, including a marketing and social media manager, and a digital editor – identified in the strategic plan – may take longer than anticipated to accomplish.

- MTPR took out a $38,000 Intercap loan in March 2011 to fund the acquisition of membership software, replacing an antiquated custom-designed software program that had reached the end of its usefulness. The four-year term (currently at 1.0%) requires yearly payments of approximately $8,000 and will be retired in August, 2015.

- The impact of budget reductions by the University of Montana continues to ripple across MTPR operations and personnel budget. These base-budget cuts are not likely to be restored and will result in increased reliance on membership and philanthropic fundraising.

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INDEPENDENT AUDITOR'S REPORT

University of Montana
Missoula, Montana

Report on the Financial Statements

We have audited the accompanying financial statements of KUFM-FM Radio (a public telecommunications entity operated by the University of Montana), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise KUFM-FM Radio's basic financial statements as listed in the table of contents.

The financial statements of KUFM-FM Radio as of June 30, 2013 were audited by Galusha, Higgins & Galusha, PC which combined its practice with Wipfli LLP as of December 31, 2014 whose report dated December 31, 2013, expressed an unmodified opinion on those statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, financial position of KUFM-FM Radio, as of June 30, 2014 and 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note B to the financial statements, the June 30, 2013 financial statements have been restate for a prior period adjustment. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 1 through 9, and the schedule of funding status for other post employment benefits for health insurance on page 24, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

As discussed in Note A to the financial statements, KUFM-FM Radio received $5,400 and $6,275, respectively, in in-kind professional fees for the years ended June 30, 2014 and 2013.

Wipfli LLP

Missoula, Montana
January 14, 2015

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

ASSETS

	2014	Restated 2013
CURRENT ASSETS		
Cash and cash equivalents	**$ 1,111,093**	$ 1,057,616
Accounts receivable, net	**102,347**	133,058
Due from federal government	**-**	1,514
Prepaid expenses	**27,188**	4,050
Total current assets	**1,240,628**	1,196,238
NONCURRENT ASSETS		
Endowment investments	**177,746**	160,943
Capital assets, net	**515,666**	591,376
Total noncurrent assets	**693,412**	752,319
	$ 1,934,040	$ 1,948,557

LIABILITIES AND NET POSITION

	2014	Restated 2013
CURRENT LIABILITIES		
Accounts payable	**$ 23,864**	$ 5,477
Property held in trust for others	**120,252**	83,894
Due to primary government	**7,760**	7,611
Unearned revenue	**86,263**	55,840
Accrued compensated absences	**72,208**	80,473
Total current liabilities	**310,347**	233,295
NONCURRENT LIABILITIES		
Advances from primary government	**7,827**	15,587
Net OPEB liability	**246,755**	227,496
Accrued compensated absences	**100,373**	117,297
Total noncurrent liabilities	**354,955**	360,380
Total liabilities	**665,302**	593,675
NET POSITION		
Invested in capital assets, net of related debt	**500,079**	568,178
Restricted for nonexpendable	**191,639**	168,980
Unrestricted	**577,020**	617,724
Total net position	**1,268,738**	1,354,882
	$ 1,934,040	$ 1,948,557

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

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

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

for the years ended June 30

	2014	Restated 2013
OPERATING REVENUES		
State appropriations	**$ 456,383**	$ 414,708
Federal grants and contracts	**7,234**	4,978
Grants from CPB	**243,857**	273,308
Non-governmental grants and contracts	**13,811**	24,498
Indirect cost recoveries	**268,961**	320,803
Other revenue	**210**	27,048
Sales and services of educational departments	**-**	3,052
Total operating revenues	**990,456**	1,068,395
OPERATING EXPENSES		
Program services	**1,556,073**	1,708,668
Management and general	**307,509**	363,473
Fundraising	**358,458**	380,220
Depreciation expense	**75,710**	69,448
Total operating expenses	**2,297,750**	2,521,809
OPERATING LOSS	**(1,307,294)**	(1,453,414)
NONOPERATING REVENUES/(EXPENSES)		
Private gifts	**1,189,261**	1,651,469
Investment income	**32,102**	9,735
Interest expense	**(213)**	(360)
Net nonoperating revenues/(expenses)	**1,221,150**	1,660,844
OTHER REVENUES		
Capital grants and gifts	**-**	111,938
CHANGE IN NET POSITION	**(86,144)**	319,368
NET POSITION - Beginning of year, as previously reported	**1,354,882**	999,935
NET POSITION - Prior period adjustment	**-**	35,579
NET POSITION - End of year	**$ 1,268,738**	$ 1,354,882

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

KUFM-FM RADIO
A PUBLIC TELECOMMUNICATIONS ENTITY OPERATED BY
UNIVERSITY OF MONTANA
STATEMENTS OF CASH FLOWS
for the years ended June 30

	2014	Restated 2013
CASH FLOWS FROM OPERATING ACTIVITIES		
State appropriations	**$ 456,383**	$ 414,708
Grants from state agencies	**353**	3,200
Federal grants and contracts	**4,321**	44,634
Grants from CPB	**258,956**	197,439
Nongovernmental grants & contracts	**15,061**	27,711
Indirect cost recoveries	**268,961**	320,803
Other revenue	**210**	27,048
Sales and services of educational activities	**-**	3,052
Operating expenses	**(2,183,764)**	(2,494,242)
Net cash used in operating activities	**(1,179,519)**	(1,455,647)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Private gifts	**1,225,521**	1,632,072
CASH FLOWS FROM INVESTING ACTIVITIES		
Contributions to endowments	**(16,803)**	(121,721)
Earnings received on investments	**32,102**	12,364
Net cash received/(used by) from investing activities	**15,299**	(109,357)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Cash paid for capital assets	**-**	(60,297)
Capital gifts	**-**	126,081
Payments on notes payable	**(7,824)**	(7,826)
Net cash received/(used by) from capital and related financing activities	**(7,824)**	57,958
NET CHANGE IN CASH AND CASH EQUIVALENTS	**53,477**	125,026
CASH AND CASH EQUIVALENTS - Beginning of year	**1,057,616**	932,590
CASH AND CASH EQUIVALENTS - End of year	**$ 1,111,093**	$ 1,057,616
CASH FLOWS USED IN OPERATING ACTIVITIES		
Operating loss	**$ (1,307,294)**	$ (1,453,414)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	**75,710**	69,448
In-kind contributions	**12,600**	14,375
Increase in accounts receivable	**(6,650)**	(3,366)
Increase in prepaid expenses	**(23,138)**	(1,999)
Increase (decrease) in accounts payable	**18,387**	(119,685)
Increase in property held in trust for others	**36,358**	38,180
Increase in net OPEB liability	**19,259**	27,709
Increase (decrease) in unearned revenue	**20,438**	(26,434)
Decrease in compensated absences	**(25,189)**	(461)
Net cash flows used in operating activities	**$ (1,179,519)**	$ (1,455,647)

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

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

Restricted, nonexpendable – Net position subject to externally imposed restrictions that require KUFM to maintain those assets permanently. Such assets include KUFM's permanent endowment funds. The endowment funds are made up of cash and investments. Investments are carried at fair market value per Governmental Accounting Standards Board (GASB) Statement No. 31, Account and Financial Reporting for Certain Investments and Certain Investment Pools.

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

Continued

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Unrestricted – Net position that is not subject to externally imposed restrictions. Unrestricted net position may be designated for specific purposes by action of management or the Board of Regents or may otherwise be limited by contractual agreements with outside parties.

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

Accounts Receivable. Accounts receivable are primarily made up of pledges receivable. Pledges receivable are recognized by KUFM when the donor makes a promise to give that is unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net position if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in expendable or nonexpendable restricted net position depending on the nature of the restrictions. When an expendable restriction is fulfilled, expendable restricted net position is reclassified to unrestricted net position.

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

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

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

Revenue Recognition. Revenue from grants and contracts is recognized when qualified expenses are incurred under the grant or contract. Revenue from gifts and in-kind services is recognized when received.

In-Kind Contributions. Administrative support from the University of Montana consists of allocated institution and physical plant costs incurred by the University on behalf of KUFM. Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted unless the donor has restricted the donated asset to a specific purpose. In 2014 and 2013, KUFM received \$5,400 and \$6,275, respectively, of in-kind professional services. They also received \$8,100 of in-kind services and lease accommodation in both 2014 and 2013.

Continued

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Tax-Exempt Status. Since KUFM-FM Radio is a component of the University of Montana (a political subdivision of the State of Montana); it is exempt from federal income taxes under Internal Revenue Code Section 115. However, income generated from activities unrelated to the exempt purpose is subject to income tax under Internal Revenue Code Section 511(a)(2)(B). The Unrelated Business Income Tax (UBIT) amount was $0 for the years ended June 30, 2014 and 2013. The Station believes income tax filing positions will be sustained upon examination and do not anticipate any adjustments that would result in a material adverse affect on the financial statements or cash flows. Accordingly, no reserves or related accruals for interest or penalties for uncertain income tax positions have been recorded as of June 30, 2014 or 2013. The Station's income tax positions are subject to examination for the preceding three tax years. Any interest or penalties that may be assessed in the future will be recorded as management and general expenses.

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

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

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

NOTE B PRIOR PERIOD ADJUSTMENT

Net position as of July 1, 2012 has been restated to correct the other post employment benefit liability balance. This resulted in an increase of net position of $35,579. This correction also increased previously reported net increase in net position by $7,471.

Continued

NOTE C CAPITAL ASSETS

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

2014	Beginning Balance	Additions	Deletions	Transfers and Other Changes	Ending Balance
Transmission, antenna & tower	**$ 865,365**	**$ -**	**$ -**	**$ -**	**$ 865,365**
Studio & broadcast equipment	**517,229**	**-**	**(44,773)**	**18,395**	**490,851**
Furniture, fixtures, and other equipment	**235,412**	**-**	**-**	**-**	**235,412**
Construction in progress	**18,395**	**-**	**-**	**(18,395)**	**-**
Total capital assets	**1,636,401**	**-**	**(44,773)**	**-**	**1,591,628**
Less accumulated depreciation for:					
Transmission, antenna & tower	**778,107**	**40,967**	**-**	**-**	**819,074**
Studio & broadcast equipment	**223,407**	**27,573**	**(44,773)**	**-**	**206,207**
Furniture, fixtures and other equipment	**43,511**	**7,170**	**-**	**-**	**50,681**
Total accumulated depreciation	**1,045,025**	**75,710**	**(44,773)**	**-**	**1,075,962**
Capital assets, net	**$ 591,376**	**$ (75,710)**	**$ -**	**$ -**	**$ 515,666**
2013					
Transmission, antenna & tower	$ 865,365	$ -	$ -	$ -	$ 865,365
Studio & broadcast equipment	494,247	41,902	(18,920)	-	517,229
Furniture, fixtures, and other equipment	262,564	-	(27,152)	-	235,412
Construction in progress	-	18,395	-	-	18,395
Total capital assets	1,622,176	60,297	(46,072)	-	1,636,401
Less accumulated depreciation for:					
Transmission, antenna & tower	761,751	16,356	-	-	778,107
Studio & broadcast equipment	220,561	21,766	(18,920)	-	223,407
Furniture, fixtures and other equipment	39,337	31,326	(27,152)	-	43,511
Total accumulated depreciation	1,021,649	69,448	(46,072)	-	1,045,025
Capital assets, net	$ 600,527	$ (9,151)	$ -	$ -	$ 591,376

Continued

NOTE D ADVANCES FROM PRIMARY GOVERNMENT/DUE TO PRIMARY GOVERNMENT

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

	2014	2013
Intercap loan payable to Montana Board of Investments, current interest rate of 1.00% adjusted annually, biannual principal and interest payments of $4,013 due February 15 and August 15 through February 2016.	**$ 15,587**	$ 23,198
Current portion - Due to primary government	**(7,760)**	(7,611)
	$ 7,827	$ 15,587

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

	Principal	Interest	Total
Intercap Loan Payable			
2015	$ 7,760	$ 136	$ 7,896
2016	7,827	59	7,886
	$ 15,587	$ 195	$ 15,782

NOTE E EMPLOYEE BENEFIT PLANS

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

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

Continued

NOTE E EMPLOYEE BENEFIT PLANS, continued

Contribution rates, determined by State law, for 2014 are as follows:

	PERS	TRS	MUS-RP
Employee	7.90%	10.86%	7.85%
Employer	8.20%	10.85%	4.49%

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

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

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

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

Continued

NOTE E EMPLOYEE BENEFIT PLANS, continued

Montana University System - Retirement Program (MUS-RP). This system was established in January of 1998, and is underwritten by the Teachers' Insurance and Annuity Association-College Retirement Equity Fund (TIAA-CREF). The MUS-RP is a defined contribution plan. The benefits at retirement depend upon the amount of investing gains and losses and the employee's life expectancy at retirement. Under the MUS-RP, each employee enters into an individual contract with TIAA-CREF (therefore, the employee assumes the investment risk for their retirement). Montana State University records employee/employer contributions, and remits monies to TIAA-CREF. Individuals are immediately vested with contributions. For MUS-RP participants 4.72% was contributed to TRS as employer contributions to amortize past service unfunded liability in accordance with state law. In addition, 3.68% was contributed to PERS from MUS-RP staff employer contributions to amortize past service unfunded liability in accordance with state law.

Other Post-Employment Benefits

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

Eligibility. Retirees who are eligible to receive retirement benefits from Teachers Retirement System (TRS) or the Public Employees Retirement System (PERS) at the time employment ceases may participate in the plan. Retirees who are in the Montana University System – Retirement Program (MUS-RP) (through TIAA-CREF) or any other defined contribution plan associated with the MUS must have worked five or more years and be age 50, or have worked 25 years with the MUS to be eligible for retiree insurance benefits. The MUS's Interunit Benefits Committee, at the direction of the OCHE, sets the premiums for such participation. Until a retiree reaches age 65, individual retiree participation premiums range from $600 to $1,410 per month, depending on the level of deductible and other selected plan features. Upon reaching age 65 (Medicare eligibility), monthly participation premiums range from $259 to $951 for an individual retiree. Coverage is also extended to dependents and surviving dependents of the employee.

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

Continued

NOTE E EMPLOYEE BENEFIT PLANS, continued

The plan is considered to be a multi-employer agent plan. All units of the MUS fund the post-employment benefits on a pay-as-you-go basis from general assets. The University's annual other post employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with GASB Statement No. 45. The calculated ARC represents an amount that, if funded, would cover normal cost each year and amortize any unfunded actuarial liability over a period of 30 years. For the fiscal years ended June 30, 2014 and June 30, 2013, the University's annual OPEB cost (expense) was $4,645,516 and $5,720,371, respectively. The actuarial determination was based on plan information as of July 1, 2013. At that time, the number of active participants in the health insurance plan was 3,000.

The total number of inactive (retiree and dependent) participants was 934. During the year ended June 30, 2014 and 2013, the University contributed $29,040,377 and $26,525,837 for actively employed participants, whose annual covered payroll totaled $176,743,341 as of the last actuarial valuation. The University makes an annual contribution to the plan for retirees and their dependents.

As of the latest actuarial evaluation, the actuarial accrued liability for retiree health benefits was $39,903,367. The percentage of annual OPEB cost contributed to the plan was 0% for both years, and the net OPEB obligation was $42,817,481 and $38,910,158 for 2014 and 2013, respectively. The funded status of the plan as of June 30 was 0% for both years.

The Universities' OPEB obligations for 2014, 2013 and 2012 are:

Year ended June 30	**2014**	Restated 2013	Restated 2012
Annual required contribution	**$ 4,288,320**	$ 5,411,759	$ 5,190,975
Interest on net OPEB obligation	**1,656,088**	1,430,836	1,203,979
Amortization of net OPEB obligation	**(1,298,892)**	(1,122,224)	(944,297)
Annual OPEB cost	**4,645,516**	5,720,371	5,450,657
Contributions made	**(738,193)**	(397,085)	(89,432)
Increase to net OPEB obligation	**3,907,323**	5,323,286	5,361,225
Net OPEB obligation - beginning of year	**38,910,158**	33,586,872	28,225,647
Net OPEB obligation - end of year	**$ 42,817,481**	$ 38,910,158	$ 33,586,872

Continued

NOTE E EMPLOYEE BENEFIT PLANS, continued

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

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

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

NOTE F RELATED PARTY TRANSACTIONS

KUFM Radio receives non-monetary contributions from the University of Montana for the space and use of the facility. During 2014 and 2013, these contributions totaled $268,961 and $320,803, which is equivalent to the amount of indirect plant expense incurred during 2014 and 2013, respectively.

NOTE G COMMITMENTS

Under the terms of an agreement with the Great Falls Public Radio Association (GFPRA), KUFM is obligated to pay GFPRA either a lump sum amount or monthly payments, as requested by GFPRA. Such amounts are limited to total annual donor collections from the GFPRA reception area. During 2014 and 2013, no such payments were made. GFPRA receives substantially all of its programming from KUFM and KUFM has the exclusive right to solicit and collect contributions in the GFPRA reception area. The current agreement is in effect through August 30, 2014, with either party having the ability to terminate the agreement at any time upon 60 days written notice.

NOTE H SUBSEQUENT EVENTS

Management has performed an analysis of the activities and transactions subsequent to June 30, 2014 to determine the need for any adjustments to and/or disclosure within the audited financial statements for the year ended June 30, 2014. This analysis has been performed through January 14, 2015, the date the financial statements were available to be issued.

Concluded

REQUIRED SUPPLEMENTAL INFORMATION

KUFM-FM RADIO
A PUBLIC TELECOMMUNICATIONS ENTITY OPERATED BY
UNIVERSITY OF MONTANA
SCHEDULE OF FUNDING STATUS FOR OTHER POST RETIREMENT BENEFITS FOR HEALTH INSURANCE

June 30, 2014 and 2013

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

	2009	2011	2013
Actuarial accrued liability (AAL)	$ 80,475,030	$ 48,159,444	$ 39,903,367
Actuarial value of plan assets	-	-	-
Unfunded actuarial accrued liability (UAAL)	$ 80,475,030	$ 48,159,444	$ 39,903,367
Funded ratio (actuarial value of plan assets/AAL)	0.00%	0.00%	0.00%
Covered payroll (active plan members)	$ 167,395,949	$ 166,132,779	$ 176,743,341
UAAL as a percentage of covered payroll	48.07%	28.99%	22.58%

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

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

Actuarial Valuation Date:	**July 1, 2009**	**July 1, 2011**	**July 1, 2013**
Interest/Discount rate	4.25%	4.25%	4.25%
Projected payroll increases	2.50%	2.50%	2.50%
Participant Percentage:			
Future retirees assumed to elect covereage at retirement	55.00%	55.00%	55.00%
Future eligible spouses of future retirees assumed to elect coverage	60.00%	60.00%	60.00%