KUFM-FM RADIO A Public Telecommunications Entity Operated by University of Montana

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

June 30, 2017 and 2016

Prepared by

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KUFM-FM RADIO
A PUBLIC TELECOMMUNICATIONS ENTITY OPERATED BY
UNIVERSITY OF MONTANA
June 30, 2017 and 2016

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Management's Discussion and Analysis
June 30, 2017 and 2016

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, 2017 and 2016. 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 public service unit of the Montana University System as well as a National Public Radio affiliate. It provides public radio programming and services to communities in western and central Montana. With eight full-powered transmitters and four translators broadcasting 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.

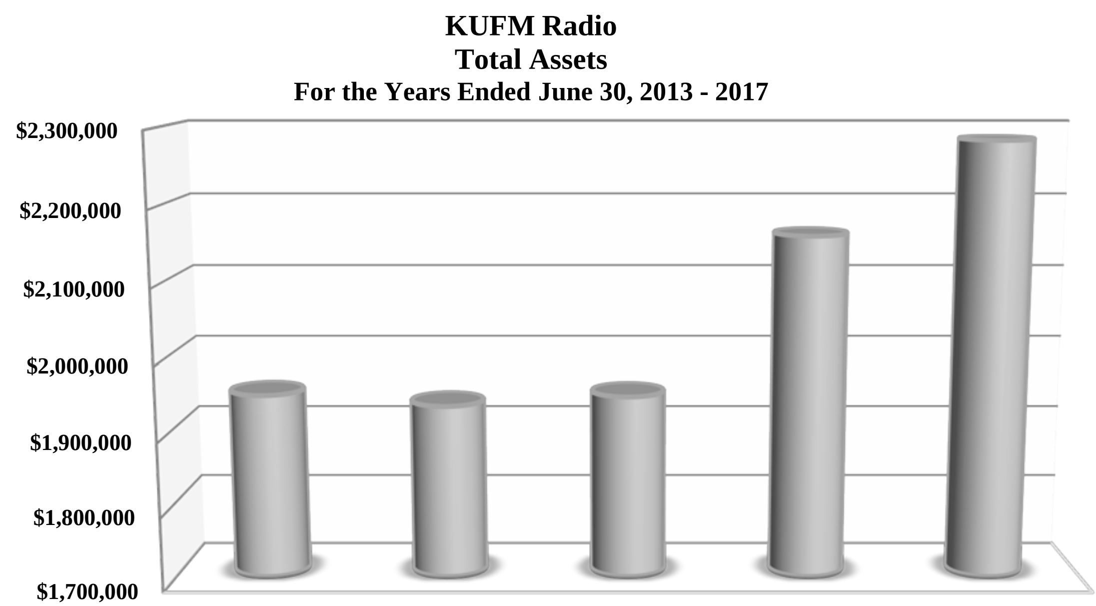
The financial statements are prepared using the accrual basis of accounting, whereas revenues are recognized when services are provided and expenses are recognized when goods or services are received, regardless of when cash is exchanged.

FINANCIAL HIGHLIGHTS AND ANALYSIS

In FY17, total revenues from all sources increased by $85,538, most notably from an increases in private gifts of $145,492 and indirect support from the University of Montana in the amount of $13,374. The increases in revenue were offset by a decrease in State appropriations of $46,559, or by 11%, and decreases in grants from the Corporation of Public Broadcasting of $27,287, or by 10%, and other revenue of $15,669, or by 25%. KUFM's total operating expenses increased $433,819, or by 18%, in FY17. Program services increased $251,886, or by 15.1%, as did fundraising costs of $137,564, or by 70.4%. Management and general costs and depreciation expense also increased. Overall, net position decreased by $102,042.

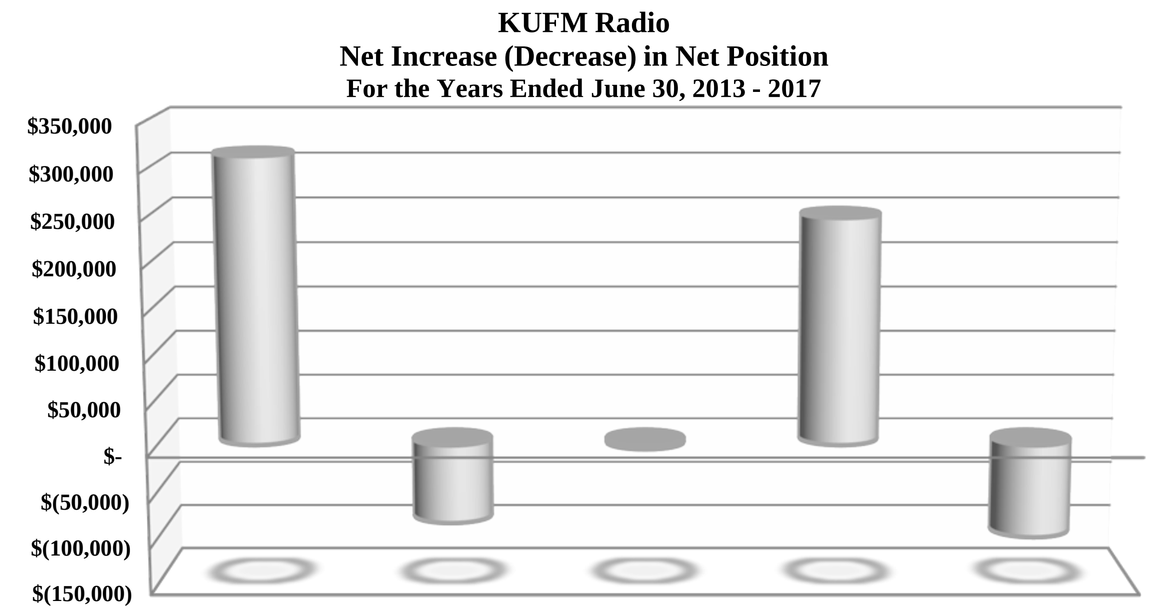
FINANCIAL HIGHLIGHTS AND ANALYSIS (continued)

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

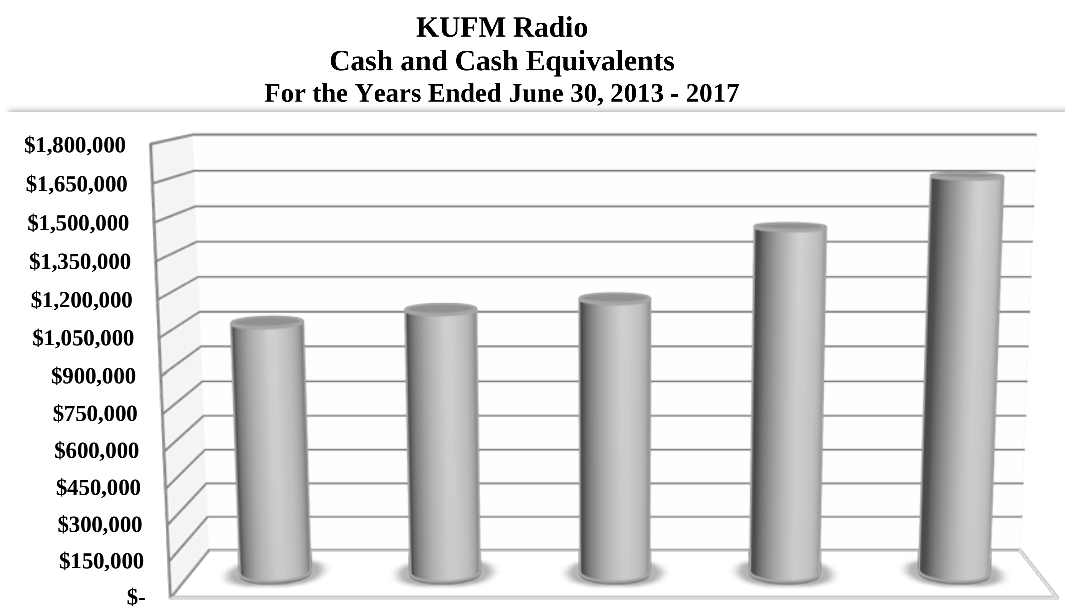


	FY13	FY14	FY15	FY16	FY17
Series1	$1,948,557	$1,934,040	$1,946,806	$2,159,138	$2,283,156

FINANCIAL HIGHLIGHTS AND ANALYSIS (continued)



	FY13	FY14	FY15	FY16	FY17
Series1	$311,897	$(86,144)	$(4,586)	$246,166	$(102,042)



	FY13	FY14	FY15	FY16	FY17
Series1	$1,057,616	$1,111,093	$1,155,422	$1,447,531	$1,652,173

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:

	2017	2016	2015
ASSETS			
Total current assets	$ 1,782,233	$ 1,576,634	$ 1,289,010
Total non-current assets	500,923	582,504	657,796
Total Assets	2,283,156	2,159,138	1,946,806
DEFERRED OUTFLOWS OF RESOURCES	175,874	47,140	52,488
	$ 2,459,030	$ 2,206,278	$ 1,999,294
LIABILITIES			
Total current liabilities	$ 289,088	$ 317,247	$ 350,080
Total non-current liabilities	1,502,307	1,094,540	978,527
Total liabilities	1,791,395	1,411,787	1,328,607
DEFERRED INFLOWS OF RESOURCES	15,028	39,842	162,204
NET POSITION			
Net invested in capital assets	341,319	429,659	481,628
Restricted	180,767	167,572	176,365
Unrestricted	130,521	157,418	(149,510)
Total net position	652,607	754,649	508,483
	$ 2,459,030	$ 2,206,278	$ 1,999,294

<u>Events or developments which occurred during 2017</u>

- In FY17, current assets increased by $205,599, due primarily to an increase in cash and cash equivalents of $204,642 and an increase in prepaid expenses of $16,790, which was offset by a $15,833 decline in Accounts Receivable. The increase in cash and cash equivalents reflects an increase in donor support from fundraising activities.

FINANCIAL HIGHLIGHTS AND ANALYSIS (continued)

- The increase in deferred outflows of resources of $128,734 is from KUFM's proportionate share of the multi-employer pension plan's deferred outflows.

- Noncurrent assets decreased by over $81,000 due primarily to a $88,340 decline in capital assets from the increase in accumulated depreciation, offset by an increase of $6,759 in the fair value of endowment investments.

- Current liabilities decreased by over $28,000 due to a decrease in property held in trust of $62,396 for the Great Falls Public Radio Association-KGPR. KUFM solicits funds for Great Falls Public Radio Association – KGPR and records donations received on their behalf in property held in trust. This decrease was offset in FY17 by an increase in accounts payable of $6,039, and increases of $13,824 and $14,374 for deferred revenue and accrued compensated absences, respectively.

- The decrease in deferred inflows of resources of $24,814 is from a reduction in KUFM's proportionate share of the multi-employer pension plan's deferred inflows.

- Noncurrent liabilities increased by $407,767 in FY17 due to increases in the liability for other postemployment benefits (OPEB) and KUFM's proportionate share of the multi-employer pension plan's net pension liability of $22,350 and $362,998, respectively. Accrued compensated absences increased by $22,419.

- The net position of KUFM decreased by over $102,000 in FY17 due largely to an increase operating expenses of $433,819, which was offset in part by an increase in revenues of $85,611, notably from increases in private gifts and investment income of $145,492 and $22,077, respectively.

<u>Events or developments which occurred during 2016</u>

- In FY16, current assets increased by almost $290,000, due primarily to an increase in cash and cash equivalents of $292,000, which was offset by a $1,200 decline in prepaid expenses and a $3,300 decline in Accounts Receivable. The increase in cash and cash equivalents reflects an increase in donor support from fundraising activities.

- The decrease in deferred outflows of resources of $5,300 is from a reduction in KUFM's proportionate share of the multi-employer pension plan's deferred outflows.

- Noncurrent assets decreased by over $75,000 in FY16 due to a $60,000 decline in capital assets from the increase in accumulated depreciation and a decrease of $15,500 in the fair value of endowment investments..

- Current liabilities decreased by over $32,000 due to decreases in accounts payable and accrued liabilities of $34,000 and unearned revenue of $37,000, which were offset by a $41,000 increase in property held in trust for the Great Falls Public Radio Association-KGPR. KUFM solicits funds

FINANCIAL HIGHLIGHTS AND ANALYSIS (continued)

for Great Falls Public Radio Association – KGPR and records donations received on their behalf in property held in trust.

- The decrease in deferred inflows of resources of $122,000 is from a reduction in KUFM's proportionate share of the multi-employer pension plan's deferred inflows.

- Noncurrent liabilities increased by $116,000 in FY16 due to increases in the liability for other postemployment benefits (OPEB) and KUFM's proportionate share of the multi-employer pension plan's net pension liability of $24,000 and $91,000, respectively.

- The net position of KUFM increased by over $246,000 in FY16 due largely to an increase in donor support from its fundraising efforts.

Statement of Revenues, Expenses and Changes in Net Position

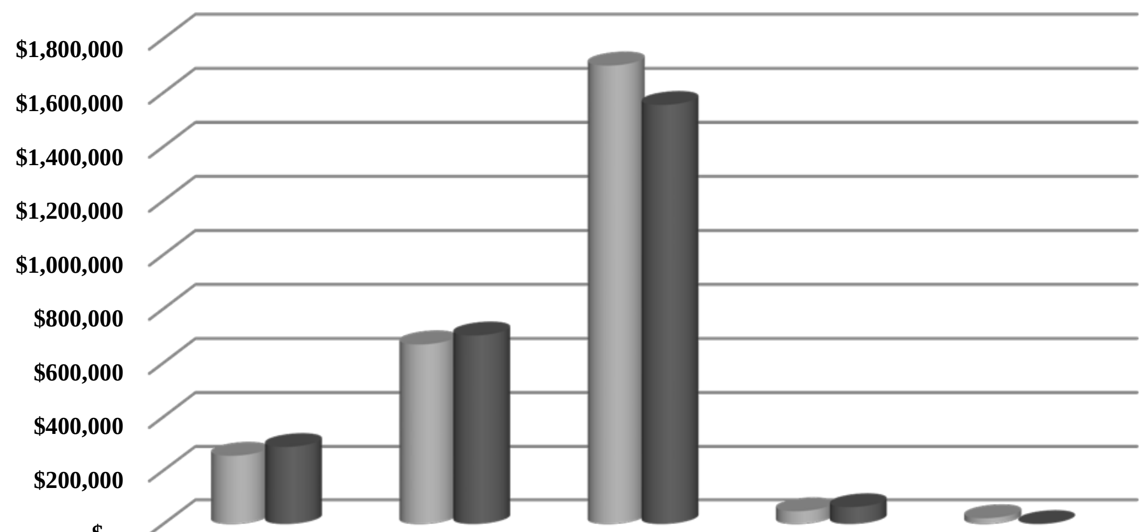
The Statement of Revenues, Expenses, and Changes in Net Position present the results of KUFM's operational activities. In accordance with GASB, revenues and expenses are classified as either operating or non-operating. Operating revenues and expenses are the inflows or uses of funds related directly 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.

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

	2017	2016	2015
Operating revenue	$ 970,686	$ 1,052,717	$ 1,004,778
Operating expenses	2,794,027	2,360,208	2,412,903
Operating loss	(1,823,341)	(1,307,491)	(1,408,125)
Non-operating revenues	1,721,299	1,553,657	1,403,539
Income (loss) before other revenues	(102,042)	246,166	(4,586)
Net change in net position	(102,042)	246,166	(4,586)
Net position, beginning of year, as previously reported	754,649	508,483	1,268,738
Net position, prior period adjustment	-	-	(755,669)
Net position, end of year	$ 652,607	$ 754,649	$ 508,483

FINANCIAL HIGHLIGHTS AND ANALYSIS (continued)

The following chart provides a graphical representation of revenues by source for fiscal years 2017 and 2016:



	Grants	State & University Support	Donations & Contributions	Sales & Service/ Miscellaneous	Investment Income
FY17	$255,192	$668,120	$1,700,058	$47,375	$21,241
FY16	$288,368	$701,305	$1,554,566	$62,971	$-

<u>Events or developments which occurred during 2017</u>

- Operating revenues decreased by $82,031 in FY17 largely from decreases in state appropriations of $46,559, grants from the CPB of $27,287, and other revenues of $15,669. Nonoperating revenues rose more significantly with an increase of over $145,000 due to an increase in private gifts and in-kind donations.

- The significant increase in operating expenses of $433,819 in FY17, is primarily from increases in program services of $251,886 and fundraising of $137,564. Management costs rose by $15,826 along with an increase in depreciation expense of $28,543. The overall increase in operating expenses can be attributed largely to an increase in salaries and wages of $104,107 due to the University of Montana's FY17 pay plan, and an increase in pension expense of $209,449.

<u>Events or developments which occurred during 2016</u>

- Operating revenues increased by almost $48,000 in FY16 largely from an increase in grants and other revenues of $68,000. Nonoperating revenues rose more significantly with an increase of

FINANCIAL HIGHLIGHTS AND ANALYSIS (continued)

over $150,000 due to an increase in private gifts and in-kind donations. While operating costs for program services were up by $52,000 in FY16, total operating expenses decreased by $53,000 primarily due to decreases in management and general, and fundraising expenses of $24,000 and $83,000, respectively.

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:

	2017	2016	2015
CASH PROVIDED BY (USED IN)			
Operating activities	$(1,505,028)	$(1,261,715)	$(1,260,496)
Noncapital financing activities	1,695,188	1,547,064	1,332,025
Capital and related financing activities	-	(7,900)	(39,797)
Investing activities	14,482	14,660	12,597
Net change in cash and cash equivalents	204,642	292,109	44,329
Cash and cash equivalents – beginning of year	1,447,531	1,155,422	1,111,093
Cash and cash equivalents – end of year	$ 1,652,173	$ 1,447,531	$ 1,155,422

Events or developments which occurred during 2017

Specific events or cash transactions that had a significant influence on the increase in cash (a net cash inflow) of approximately $204,642 during fiscal year 2017 were:

- Cash used in operating activities in FY17 increased by $243,313 primarily from a $134,230 increase in cash used for compensation and benefits.

- Cash provided by noncapital and capital financing activities increased by more than $148,000 as a result of increased private gifts.

- Cash provided by investing activities of over $14,000 is primarily from endowment investment earnings.

- Cash was not used in FY17 for capital and related financing activities for debt service payments on a loan obligation which ended in FY16, or to acquire capital assets in FY17.

FINANCIAL HIGHLIGHTS AND ANALYSIS (continued)

Events or developments which occurred during 2016

Specific events or cash transactions that had a significant influence on the increase in cash (a net cash inflow) of approximately $292,109 during fiscal year 2016 were:

- Cash used in operating activities in FY16 were comparable to cash used for operating activities in FY15.
- Cash provided by noncapital and capital financing activities increased by more than $215,000 as a result of increased private gifts.
- Cash provided by investing activities of over $14,000 is primarily from endowment investment earnings.
- Cash used in by capital and related financing activities of $7,900 was for debt service payments on a loan obligation. KUFM did not use cash to acquire capital assets in FY16.

ECONOMIC OUTLOOK

- Corporation for Public Broadcasting (CPB) funding from Congress will again be level for FY18 and FY19. The allocation to CPB has remained at the same level since FY13. With inflation, the continued level funding will mean less support to stations. In FY16, CPB funds made up only 10% of total MTPR station revenue. CPB is asking Congress for the same allocation for FY20.
- An upcoming change in leadership at the University of Montana and revenue issues are causes for concern moving forward into the new year. Seth Bodnar, an executive at GE, will take over as UM's president in 2018.
- Due to enrollment issues, the University of Montana has been going through a prioritization review of academic and administrative programs and offerings. While the Broadcast Media Center, home to Montana Public Radio and MontanaPBS, has made it through the first review of the prioritization committee, there are questions marks about funding from the University's state appropriation. Roughly 18% of MTPR funding comes from the University appropriation.
- For the past several years, institutional support from the University of Montana has decreased and continues to impact MTPR's operational and personnel budgets. The base-budget cuts are not likely to be restored and further cuts may be possible. MTPR continues to look at ways to reduce program and personnel costs. Some personnel lines were moved from state budgets to gift accounts to make up for the cuts. There is a real possibility of additional cuts coming as the University continues to look at ways to downsize.

ECONOMIC OUTLOOK (continued)

- MTPR membership revenue has been relatively flat for the past year. Corporate support has been increasing. Overall, MTPR revenue has just been covering hard costs. MTPR has not been able to save contingency revenue for future funding challenges.

- During the past year, the MTPR development director completed courses in managing capital campaigns, and in major and planned giving programs. We are hoping that this area will become a growing segment of MTPRs revenue plan moving forward.

- MTPR has begun implementation of a plan to replace six aged transmitters over three summers, 2017-2019. The plan also includes changing our current satellite-based program delivery system to one fed by terrestrial microwave. Funding for this project will come from listener donations as well as potential grant support from local and regional foundations. The biggest benefit to the project is cost saving and dependability. Delivery via microwave costs less and is more reliable.

INDEPENDENT AUDITOR'S REPORT

University of Montana
Missoula, Montana

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 years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise KUFM-FM Radio's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of KUFM-FM Radio, as of June 30, 2017 and 2016, and the changes in financial position, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

WIPFLi LLP

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States require that management's discussion and analysis and the required supplemental information on pages 1-10 and pages 32-33 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, 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.

Wipfli LLP

Missoula, Montana
January 8, 2018

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

STATEMENTS OF NET POSITION

June 30

ASSETS AND DEFERRED OUTFLOWS

	2017	2016
CURRENT ASSETS		
Cash and cash equivalents	**$ 1,652,173**	$ 1,447,531
Accounts receivable, net	**107,513**	123,346
Prepaid expenses	**22,547**	5,757
Total current assets	**1,782,233**	1,576,634
NONCURRENT ASSETS		
Endowment investments	**159,604**	152,845
Capital assets, net	**341,319**	429,659
Total noncurrent assets	**500,923**	582,504
Total assets	**2,283,156**	2,159,138
DEFERRED OUTFLOWS OF RESOURCES - pension related	**175,874**	47,140
	$ 2,459,030	$ 2,206,278

LIABILITIES, DEFERRED INFLOWS AND NET POSITION

	2017	2016
CURRENT LIABILITIES		
Accounts payable	**$ 6,788**	$ 749
Property held in trust for others	**133,951**	196,347
Unearned revenue	**69,450**	55,626
Accrued compensated absences	**78,899**	64,525
Total current liabilities	**289,088**	317,247
NONCURRENT LIABILITIES		
Net OPEB liability-health benefits	**318,100**	295,750
Net pension liability	**1,081,605**	718,607
Accrued compensated absences	**102,602**	80,183
Total noncurrent liabilities	**1,502,307**	1,094,540
Total liabilities	**1,791,395**	1,411,787
DEFERRED INFLOWS OF RESOURCES - pension related	**15,028**	39,842
NET POSITION		
Invested in capital assets, net of related debt	**341,319**	429,659
Restricted for nonexpendable	**180,767**	167,572
Unrestricted	**130,521**	157,418
Total net position	**652,607**	754,649
	$ 2,459,030	$ 2,206,278

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

	2017	2016
OPERATING REVENUES		
State appropriations	**$ 377,957**	$ 424,516
Federal grants and contracts	**6,070**	6,414
Grants from CPB	**247,241**	274,528
Non-governmental grants and contracts	**1,880**	7,426
Indirect cost recoveries	**290,163**	276,789
Other revenue	**47,375**	63,044
Total operating revenues	**970,686**	1,052,717
OPERATING EXPENSES		
Program services	**1,921,999**	1,670,113
Management and general	**450,731**	434,905
Fundraising	**332,958**	195,394
Depreciation expense	**88,339**	59,796
Total operating expenses	**2,794,027**	2,360,208
OPERATING LOSS	**(1,823,341)**	(1,307,491)
NONOPERATING REVENUES/(EXPENSES)		
Private gifts	**1,700,058**	1,554,566
Investment income (loss)	**21,241**	(836)
Interest expense	**-**	(73)
Net nonoperating revenues/(expenses)	**1,721,299**	1,553,657
CHANGE IN NET POSITION	**(102,042)**	246,166
NET POSITION - Beginning of year	**754,649**	508,483
NET POSITION - End of year	**$ 652,607**	$ 754,649

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

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
State appropriations	$ 377,957	$ 424,516
Federal grants and contracts	6,070	6,414
Grants from CPB	264,769	234,213
Nongovernmental grants & contracts	1,880	7,426
Indirect cost recoveries	290,163	276,789
Other revenue	47,375	63,044
Operating expenses	(2,493,242)	(2,274,117)
Net cash used in operating activities	(1,505,028)	(1,261,715)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Private gifts	1,695,188	1,547,064
CASH FLOWS FROM INVESTING ACTIVITIES		
Contributions to endowments	(6,759)	15,496
Earnings received on investments	21,241	(836)
Net cash received from investing activities	14,482	14,660
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Payments on notes payable	-	(7,900)
Net cash used by capital and related financing activities	-	(7,900)
NET CHANGE IN CASH AND CASH EQUIVALENTS	204,642	292,109
CASH AND CASH EQUIVALENTS - Beginning of year	1,447,531	1,155,422
CASH AND CASH EQUIVALENTS - End of year	$ 1,652,173	$ 1,447,531
CASH FLOWS USED IN OPERATING ACTIVITIES		
Operating loss	$ (1,823,341)	$ (1,307,491)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	88,340	59,796
In-kind contributions	17,000	13,900
Decrease in accounts receivable	1,370	3,247
Decrease (increase) in prepaid expenses	(16,790)	1,154
Increase (decrease) in accounts payable	6,039	(34,107)
Increase (decrease) in property held in trust for others	(62,396)	41,129
Increase in net OPEB liability-health benefits	22,350	25,351
Increase (decrease) in net pension liability	209,449	(26,169)
Increase (decrease) in unearned revenue	16,158	(43,563)
Increase in compensated absences	36,793	5,038
Net cash flows used in operating activities	$ (1,505,028)	$ (1,261,715)

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. The financial statements are prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States (GAAP).

Basis of Presentation. In June 1999, the Governmental Accounting Standards Board (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 implemented GASB Statement No. 34 during the year ended June 30, 2003. As a component unit of the State of Montana, the University of Montana, and therefore 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. During the year ended June 30, 2015, KUFM adopted GASB Statement No. 68, Accounting and Financial Reporting for Pensions.

The financial statements presentation required by 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. For purposes of the combined statements of cash flows, cash balances maintained in pooled funds with other University funds are considered cash equivalents. The universities allocate cash balances to KUFM from their funds invested in the Short Term Investment Pool (STIP) with the Montana Board of Investments. The universities consider STIP funds to be cash equivalents.

Accounts Receivable. Accounts receivable are 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 2017 and 2016, KUFM received $8,900 and $5,800, respectively, of in-kind professional services. They also received $8,100 of in-kind services and lease accommodation in both 2017 and 2016.

Continued

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Tax-Exempt Status. Since KUFM 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, 2017 and 2016. 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, 2017 or 2016. 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 requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Deferred Inflows of Resources. Deferred inflows represent the acquisition of resources that is applicable to a future reporting period.

Deferred Outflows of Resources. Deferred outflows represent the consumption of resources that is applicable to a future reporting period but do not require a future exchange of goods or services.

Capital Assets. All acquisitions and improvements ranging from $5,000 for equipment to $500,000 for infrastructure, and with estimated useful lives of more than one year are capitalized while all expenditures for repairs and maintenance that do not materially prolong the useful lives of assets are expensed. Purchased property and equipment is carried at cost. Donated property and equipment is carried at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated lives of the assets ranging from 4 to 40 years.

Continued

NOTE B CASH AND CASH EQUIVALENTS

Cash balances are maintained in pooled funds with other University funds. The Universities allocate interest earnings based on the amounts KUFM has invested in the Short Term Investment Pool (STIP) with the Montana Board of Investments (BOI). Amounts held in STIP may be withdrawn by the university system on demand, and as such are classified as cash equivalents, even though a portion of the pool's underlying investments may be considered noncurrent. Audited financial statements for the State of Montana's Board of Investments are available at 2401 Colonial Drive, 3rd Floor, Helena, Montana 59620.

Investments in the pool are reported at a Net Asset Value (NAV). The fair value of pooled investments is determined annually and is based on year-end market prices. The NAV at June 30, 2017 is $1.000165. Investments in STIP are carried at cost, but reported using the NAV. STIP income is automatically reinvested in additional units. The STIP is not rated by a national rating agency.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. Because most of the Station's cash equivalents and certain investments are held in the State of Montana STIP, the state's policies regarding custodial risk are relevant. The security in STIP is held in the name of the BOI or were registered in the nominee name for the BOI and held in possession of the BOI custodial bank. Per policy, the BOI's custodial institution must hold short-term and long-term credit rating by at least one Nationally Recognized Statistical Rating Organization with a minimum requirement of A1/P1 (short term) and A3/A-1 (long term).

NOTE C ADVANCES FROM PRIMARY GOVERNMENT/DUE TO PRIMARY GOVERNMENT

In March 2011, KUFM entered into an Intercap loan agreement with the Montana Board of Investments for the purchase of new fundraising software. The loan was to be repaid in biannual installments through February 2016. The loan was paid in full during fiscal year 2016.

 Continued

NOTE D CAPITAL ASSETS

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

2017	Beginning Balance	Additions	Deletions	Transfers and Other Changes	Ending Balance
Transmission, antenna & tower	**$ 865,365**	**$ -**	**$ (203,910)**	**$ -**	**$ 661,455**
Studio & broadcast equipment	**522,751**	**-**	**-**	**-**	**522,751**
Furniture, fixtures, and other equipment	**235,412**	**-**	**(24,966)**	**-**	**210,446**
Total capital assets	**1,623,528**	**-**	**(228,876)**	**-**	**1,394,652**
Less accumulated depreciation for:					
Transmission, antenna & tower	**877,713**	**43,347**	**(203,910)**	**-**	**717,150**
Studio & broadcast equipment	**255,233**	**38,665**	**-**	**-**	**293,898**
Furniture, fixtures and other equipment	**60,923**	**6,328**	**(24,966)**	**-**	**42,285**
Total accumulated depreciation	**1,193,869**	**88,340**	**(228,876)**	**-**	**1,053,333**
Capital assets, net	**$ 429,659**	**$ (88,340)**	**$ -**	**$ -**	**$ 341,319**

2016	Beginning Balance	Additions	Deletions	Transfers and Other Changes	Ending Balance
Transmission, antenna & tower	$ 865,365	$ -	$ -	$ -	$ 865,365
Studio & broadcast equipment	522,751	-	-	-	522,751
Furniture, fixtures, and other equipment	235,412	-	-	-	235,412
Total capital assets	1,623,528	-	-	-	1,623,528
Less accumulated depreciation for:					
Transmission, antenna & tower	848,815	28,898	-	-	877,713
Studio & broadcast equipment	229,456	25,777	-	-	255,233
Furniture, fixtures and other equipment	55,802	5,121	-	-	60,923
Total accumulated depreciation	1,134,073	59,796	-	-	1,193,869
Capital assets, net	$ 489,455	$ (59,796)	$ -	$ -	$ 429,659

Continued

NOTE E EMPLOYEE BENEFIT PLANS

Plan Description

The PERS-Defined Benefit Retirement Plan (DBRP), administered by the Montana Public Employee Retirement Administration (MPERA), is a multiple-employer, cost-sharing plan established July 1, 1945, and governed by Title 19, chapters 2 & 3, Montana Codes Annotated (MCA). This plan covers the State, local governments, certain employees of the Montana University System, and school districts.

All new members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to remain in the PERS-DBRP or join the PERS-Defined Contribution Retirement Plan (DCRP) by filing an irrevocable election. Members may not be members of both the *defined contribution* and *defined benefit* retirement plans. All new members from the universities also have a third option to join the university system's Montana University System Retirement Program (MUS-RP). For members that choose to join the PERS-DCRP or the MUS-RP, a percentage of the employer contributions will be used to pay down the liability of the PERS-DBRP.

The PERS-DBRP provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are established by state law and can only be amended by the Legislature.

Summary of Benefits

Eligibility for Benefit

- Hired prior to July 1, 2011:
  - Age 60, 5 years of membership service;
  - Age 65, regardless of membership service; or
  - Any age, 30 years of membership service.
- Hired on or after July 1, 2011:
  - Age 65, 5 years of membership service;
  - Age 70, regardless of membership service.

Early retirement (reduced benefit)

- Hired prior to July 1, 2011:
  - Age 50, 5 years of membership service; or
  - Any age, 25 years of membership service.
- Hired on or after July 1, 2011: Age 55, 5 years of membership service.

Vesting

- 5 years of membership service

Member's highest average compensation (HAC)

- Hired prior to July 1, 2011 - highest average compensation during any consecutive 36 months;
- Hired on or after July 1, 2011 – highest average compensation during any consecutive 60 months
- Hired on or after July 1, 2013 – 110% annual cap on compensation considered as part of member's highest average compensation.

Continued

NOTE E EMPLOYEE BENEFIT PLANS, continued

Monthly benefit formula

- Members hired prior to July 1, 2011:
  - Less than 25 years of membership service: 1.785% of HAC per year of service credit;
  - 25 years of membership service or more: 2% of HAC per year of service credit.
- Members hired on or after July 1, 2011:
  - Less than 10 years of membership service: 1.5% of HAC per year of service credit;
  - 10 years or more, but less than 30 years of membership service: 1.785% of HAC per year of service credit;
  - 30 years or more of membership service: 2% of HAC per year of service credit.

Guaranteed Annual Benefit Adjustment (GABA)

- After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, **inclusive** of other adjustments to the member's benefit.
  - 3% for members hired **prior to** July 1, 2007
  - 1.5% for members hired **on or after** July 1, 2007 and June 30, 2013

Members hired on or after July 1, 2013: 1.5% for each year PERS is funded at or above 90%; 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and 0% whenever the amortization period for PERS is 40 years or more.

Contributions to the Plan
State law for periodic employer and employee contributions specifies rates and are a percentage of employee compensation. The State legislature has the authority to establish and amend contribution rates to the plan. Employer and employee contribution rates for 2017 were 8.47% and 7.90%, respectively and for 2016 were 8.27% and 7.90%, respectively.

Continued

NOTE E EMPLOYEE BENEFIT PLANS, continued

- Member contributions to the system of 7.9% are temporary and will be decreased to 6.9% on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below 25 years following the reduction of both the additional employer and additional member contribution rates.
- Employer contributions to the system:
  - Effective July 1, 2014, following the 2013 Legislative Session, PERS-employer contributions increase an additional 0.1% a year and will continue over 10 years through 2024. The additional employer contributions including the 0.27% added in 2007 and 2009, will terminate on January 1 following an actuary valuation that shows the amortization period of the PERS- DBRP has dropped below 25 years and remains below the 25 years following the reduction of both the additional employer and member contributions rates.
  - Effective July 1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required.
  - The Plan Choice Rate (PCR), that directed a portion of employer contributions for DCRP members to the PERS defined benefit plan, are included in the employers reporting. The PCR was paid off effective March 2016 and the contributions previously directed to the PCR are now directed to member accounts
- Non employer contributions of a portion of Coal Severance Tax interest and earnings by the State to PERS from the Coal Tax Severance fund is not considered special funding.

Actuarial Assumptions

- The Total Pension Liability (TPL) used to calculate the Net Pension Liability (NPL) was determined by taking the results of the June 30, 2015, actuarial valuation and applying standard roll forward procedures to update the TPL to June 30, 2016. There were several significant assumptions and other inputs used to measure the TPL. The actuarial assumptions used in the June 30, 2016 valuation, were based on the results of the last actuarial experience study, dated June 2010, for the six year period July 1, 2003 to June 30, 2009. Among those assumptions were the following:

-	Investment Return (net of admin expense)	7.75%
-	Admin Expense as % of Payroll	0.27%
-	General Wage Growth*	4.00%
-	*includes Inflation at	3.00%
-	Merit Increases	0% to 6.00%

Continued

NOTE E EMPLOYEE BENEFIT PLANS, continued

- Guaranteed Annual Benefit Adjustment (GABA) - after the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage each January, **inclusive** of other all adjustments to the member's benefit.
  - 3.0% for members hired **prior to** July 1, 2007
  - 1.5% for members hired between July 1, 2007 and June 30, 2013
  - Members hired on or after July 1, 2013:
    (a) 1.5% for each year PERS is funded at or above 90%;
    (b) 1.5% reduced by 0.1% for each 2.0% PERS is funded below 90%; and
    (c) 0% whenever the amortization period for PERS is 40 years or more.
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries were based on RP 2000 Combined Employee and Annuitant MortalityTables projected to 2015 with scale AA.
- Mortality assumptions among Disabled Retirees were based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections. No future mortality improvements were assumed.

Discount Rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities will be made based on the Board's funding policy, which establishes the contractually required rates under Montana Codes Annotated. In addition, the State contributes coal severance tax money from the general fund quarterly. Based on those assumptions, the System's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2117. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability**.** No municipal bond rate was incorporated in the discount rate.

Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the System. The most recent analysis, performed for the period covering fiscal years 2003 through 2009, is outlined in a report dated May 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption including rates of return adopted by similar public sector systems, and by using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

Continued

NOTE E EMPLOYEE BENEFIT PLANS, continued

Best estimates of arithmetic real rates of return for each major asset class included in the PERS-DBRP target asset allocation as of June 30, 2016, is summarized in the table below:

Asset Class	Target Asset Allocation (a)	Real Rate of Return– Arithmetic Basis (b)	Long-Term Expected Real Rate of Return (a) x (b)
Cash Equivalents	2.6%	4.00%	0.10%
Domestic Equity	36.0%	4.55%	1.64%
Foreign Equity	18.0%	6.35%	1.14%
Fixed Income	23.4%	1.00%	0.23%
Private Equity	12.0%	7.75%	0.93%
Real Estate	8.0%	4.00%	0.32%
	100.0%		4.36%
Inflation			3.00%
Portfolio Return Expectation			7.37%

Sensitivity Analysis
The following presents the University's proportionate share of the PERS-DBRP net pension liability at June 30, 2016, calculated using the discount rate of 7.75%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.75%) or 1.00% higher (8.75%) than the current rate.

	1.0% Decrease (6.75%)	Current Discount Rate	1.0% Increase (8.75%)
KUFM's proportionate share of the net pension liability	$1,569,488	$1,081,605	$661,341

Net Pension Liability
At June 30, 2017 and 2016, the KUFM recorded $1,081,605 and $718,607, respectively, for its proportionate share of the net pension liability. At June 30, 2017 the net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of June 30, 2015. The employer's proportion of the net pension liability was based on the employer's contributions received by PERS-DBRP during the measurement period July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERS-DBRP participating employers. At June 30, 2017 and 2016, the employer's proportionate share was 4.17%. and 4.23%, respectively.

There were no changes in actuarial assumptions and methods, plan benefit terms and the University's share of the net pension liability, between the measurement date of the total pension liability and June 30, 2017.

NOTE E EMPLOYEE BENEFIT PLANS, continued

For the years ended June 30, 2017 and 2016, the KUFM recognized pension expense of $280,227 and $59,437, respectively. The University also receives funding that is not special funding whereby the State general fund provides contributions from the Coal Severance Tax Fund. For the years ended June 30, 2017 and 2016, the KUFM recognized $14,857 and $22,140, respectively, for its proportionate share from this funding source.

Deferred Outflows and Deferred Inflows- At June 30, 2017 and 2016, KUFM's proportionate share of PERS-DBRP deferred outflows of resources and deferred inflows of resources were from the following sources:

	2017		2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	6,708	$ 4,967	$ -	$ 5,581
Difference between projected and actual earnings on pension plan investments	116,953	282	-	25,411
Changes in proportion differences between employer contributions and proportionate share of contributions	(1,461)	9,779	4,308	8,850
Contributions paid to PERS-DBRP subsequent to the measurement date.	53,674	-	42,832	-
Total	$ 175,874	$ 15,028	$ 47,140	$ 39,842

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

Continued

NOTE E EMPLOYEE BENEFIT PLANS, continued

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2018	$4,927
2019	$4,927
2020	$57,825
2021	$36,335
2022	NA
Thereafter	NA

Defined Contribution Retirement Plan

Montana University System - Retirement Program (MUS-RP) 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. Contribution rates for the plan are required and determined by state law. KUFM’s contributions were equal to the required contribution. The benefits at retirement depend upon the amount of contributions, amounts of investment 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. The University records employee/employer contributions and remits monies to TIAA-CREF. Individuals vest immediately in the employer portion of retirement contributions.

NOTE E EMPLOYEE BENEFIT PLANS, continued

For the years ended June 30, 2017 and 2016, 4.72% was contributed to TRS from MUS-RP faculty 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.

Annual reports that include financial statements and required supplemental information on the plan are available from TIAA-CREF at 730 Third Avenue in New York, New York.

Other Post-Employment Benefits – Health Insurance

KUFM adopted the provisions of GASB 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, during fiscal year 2008. The primary type of other post-employment benefit (OPEB) addressed by GASB 45 is postemployment health benefits. OPEB's have generally been accounted for on a pay-as-you-go basis and financial statements have often not recognized their financial effects until the benefits are paid. The standard requires that the cost of postemployment healthcare benefits be accounted for under the accrual basis of accounting, similar to the accounting requirements under GASB 27 for government sponsored pension plans, where the cost of benefits to employees are recognized in periods when the related services are received by the employer.

Plan Description- KUFM is affiliated with the Montana University System Group Insurance Plan (MUSGIP), an agent multiple-employer health care plan administered by the Office of Commissioner of Higher Education. In accordance with section 2-18-702 of the Montana Codes Annotated, the MUSGIP provides optional postemployment health care benefits to eligible University employees who receive a retirement benefit from the Teachers Retirement System, Public Employees Retirement System, or an annuity under the Optional Retirement Plan and have been employed by the Montana University System (MUS) at least five years, are age 50 or have worked 25 years with the MUS. Spouses, unmarried dependent children, and surviving spouses are also eligible. Premiums rates established by the Inter-Unit Benefits Committee are approved by the Commissioner of Higher Education. Retiree monthly premium rates range from $1,006 to $2,244 for medical coverage and decrease when a retiree becomes Medicare eligible. Medicare enrolled retiree premium rates range from $394 to $1,514. Retirees can also elect optional dental and vision coverage. The MUSGIP does not issue a stand-alone financial report but is reported as an enterprise fund in the State of Montana Comprehensive Annual Financial Report (CAFR) which can be viewed online at http://accounting.mt.gov/cafr/cafr.asp.

Annual OPEB Cost- KUFM's OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with GASB Statement 45. The ARC represents a level of funding that is projected to cover normal cost each year and amortize any unfunded actuarial liability over a period of 30 years. For fiscal year ended June 30, 2017, 2016, and 2015, the University's annual OPEB cost (expense), the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation was as follows:

NOTE E EMPLOYEE BENEFIT PLANS, continued

Year ended June 30,	**2017**	2016	2015
Annual required contribution	**$ 30,202**	$ 30,246	$ 31,461
Interest on net OPEB obligation	**15,508**	14,292	13,777
Amortization of net OPEB obligation	**(12,163)**	(11,209)	(10,806)
Annual OPEB cost	**33,547**	33,329	34,432
Contributions made	**(11,197)**	(7,978)	(10,788)
Increase to net OPEB obligation	**22,350**	25,351	23,644
Net OPEB obligation - beginning of year	**295,750**	270,399	246,755
Net OPEB obligation - end of year	**$ 318,100**	$ 295,750	$ 270,399

The information from above is based on allocation, using management's best estimate, to apply the following information as it pertains to KUFM.

The actuarial determination was based on plan information as of July 1, 2015. The Montana University System actuarial valuation is required every two years. At the time of the valuation, the number of active University participants in the MUS health insurance plan was 2,724. The total inactive (retiree and dependent) participants was 887. As of the most recent actuarial valuation, the actuarial accrued liability (AAL) for benefits was $49,787,480, a portion of which is funded by employer contributions and is being amortized as a level dollar amount over an open basis of 30 years. The total amount contributed for active participants by the University to the self-funded health insurance plan during fiscal 2017 and 2016 was $38,426,808 and $32,413,831, respectively, on annual covered payroll for the most recent actuarial valuation of $172,163,503. The AAL as a percentage of annual covered payroll was 28.92%.

Required supplemental information immediately following the notes to the financial statements presents a schedule of funding status and the actuarial assumptions used for the actuarial valuations completed in fiscal years 2011, 2013 and 2015.

Actuarial Methods and Assumptions- The actuarial funding method used to determine the cost of the MUSGIP was the projected unit credit funding method. 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.

NOTE E EMPLOYEE BENEFIT PLANS, continued

The following actuarial assumptions were used in addition to marital status at retirement, mortality rates and retirement age:

Actuarial Valuation Date:	**July 1, 2017**
Interest/Discount rate	4.25%
Projected payroll increases	2.50%
Participant Percentage:	
Future retirees assumed to elect coverage at retirement	50.00%
Future eligible spouses of future retirees assumed to elect coverage	60.00%

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.

Projections of benefits for financial reporting progress are based on the substantive plan (the plan as understood by the employer and the plan members) and includes, the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

NOTE F RELATED PARTY TRANSACTIONS

KUFM Radio receives non-monetary contributions from the University of Montana in the form of administrative support and use of the facility. During 2017 and 2016, these contributions totaled $290,163 and $276,789, which is equivalent to the amount of indirect institutional expense and indirect plant expense incurred during 2017 and 2016, 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 2017 and 2016, 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 July 11, 2017, with either party having the ability to terminate the agreement at any time upon 60 days written notice. As of June 30, 2017 and 2016, KUFM held undistributed donor amounts of $133,951 and $196,347, respectively.

Continued

NOTE H SUBSEQUENT EVENTS

Management has performed an analysis of the activities and transactions subsequent to June 30, 2017 to determine the need for any adjustments to and/or disclosure within the audited financial statements for the year ended June 30, 2017. This analysis has been performed through January 8, 2018, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTAL INFORMATION

Public Employees Retirement System

Schedule of KUFM's Proportionate Share of the Net Pension Liability (NPL)

For the Fiscal Year Ended June 30,	2017	2016
KUFM's proportion of the net pension liability	0.06%	0.05%
KUFM's proportionate share of the net pension liability	$ 1,081,605	$ 718,607
KUFM's covered-employee payroll	$ 577,747	$ 603,382
Employer's Proportionate share of the net pension liability as a percentage of its covered-employee payroll	187%	119%
Plan fiduciary net position as a percentage of the total pension liability	75%	78%

Schedule of KUFM's Contributions

For the Fiscal Year Ended June 30,	2017	2016
Contractually required contributions	$ 50,249	$ 53,471
Contributions in relation to the contractually required contributions	$ 50,249	53,471
Contribution deficiency/(excess)	$ -	$ -
Covered-employee payroll	$ 577,747	$ 603,382
Contributions as a percentage of covered-employee payroll	9%	9%

**Schedules are intended to show information for 10 years. Additional years will be displayed as they become available.*

Notes to Required Supplementary Information – For the Year Ended June 30, 2017

Method and assumptions used in calculations of contractually determined contributions: The contractually required contribution rates were determined on an annual basis for the fiscal year beginning July 1, 2014, with update procedures performed to roll forward required contributions to the measurement date of June 30, 2015.

The following actuarial methods and assumptions were used to determine contractual contribution rates reported in that schedule:

• Actuarial cost method	Entry age normal
• Amortization method	Level percentage of pay, open
• Remaining amortization period	30 years
• Asset valuation method	4-year smoothed market
• General wage growth	4.00%
• Inflation	3.00%
• Merit salary increases	0.0 - 6.0%
• Investment rate of return	7.75%, net of pension plan investment expense, and including inflation

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

Schedule of Funding Status for Other Post Retirement Benefits for Health Insurance

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

	2011	2013	2015
Actuarial accrued liability (AAL)	$ 48,159,444	$ 44,830,573	$ 49,787,480
Actuarial value of plan assets	-	-	-
Unfunded actuarial accrued liability (UAAL)	$ 48,159,444	$ 44,830,573	$ 49,787,480
Funded ratio (actuarial value of plan assets/AAL)	0.00%	0.00%	0.00%
Covered payroll (active plan members)	$ 166,132,779	$ 176,743,341	$ 172,163,503
UAAL as a percentage of covered payroll	28.99%	25.36%	28.92%

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, 2011	July 1, 2013	July 1, 2015
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 coverage at retirement	55.00%	55.00%	50.00%
Future eligible spouses of future retirees assumed to elect coverage	60.00%	60.00%	60.00%