FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

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

June 30, 2012 and 2011

KUFM-FM RADIO
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THE UNIVERSITY OF MONTANA
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KUFM-FM RADIO
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Management's Discussion and Analysis
June 30, 2012 and 2011

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, 2012 and 2011. 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 Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; the Statement of Cash Flows; and the notes to the financial statements. In addition to the financial statements, the MD&A is included as required supplementary information.

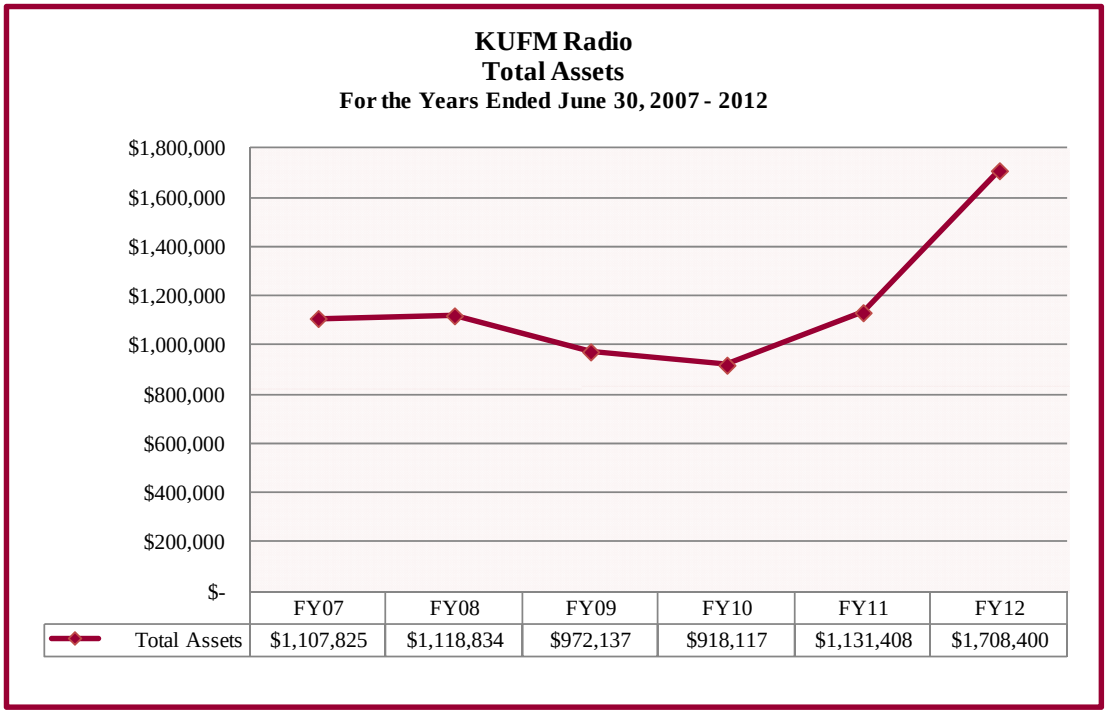
The financial statements are prepared using the accrual basis of accounting, whereas revenues are recognized when services are provided and expenses are recognized when goods or services are received, regardless of when cash is exchanged.

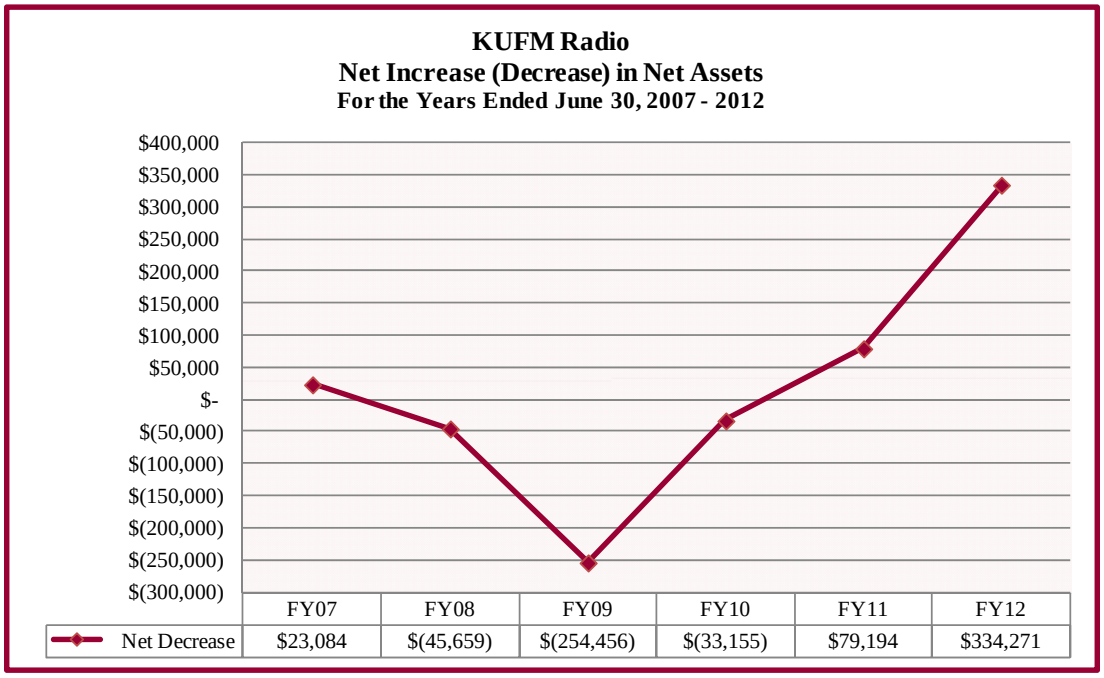
FINANCIAL HIGHLIGHTS AND ANALYSIS

KUFM's total financial position improved somewhat in fiscal year 2012. KUFM received $415,893 in capital grants, primarily from federal and private funding sources, to complete construction of two transmission facilities that has expanded its coverage area in northwestern Montana. Private gifts increased 4.65% during the year, highlighting the ongoing success of KUFM's efforts to grow support from other funding sources. While operating and non-operating revenues increased overall, the increase was largely offset by an increase in operating expenses of close to 5% in FY12.

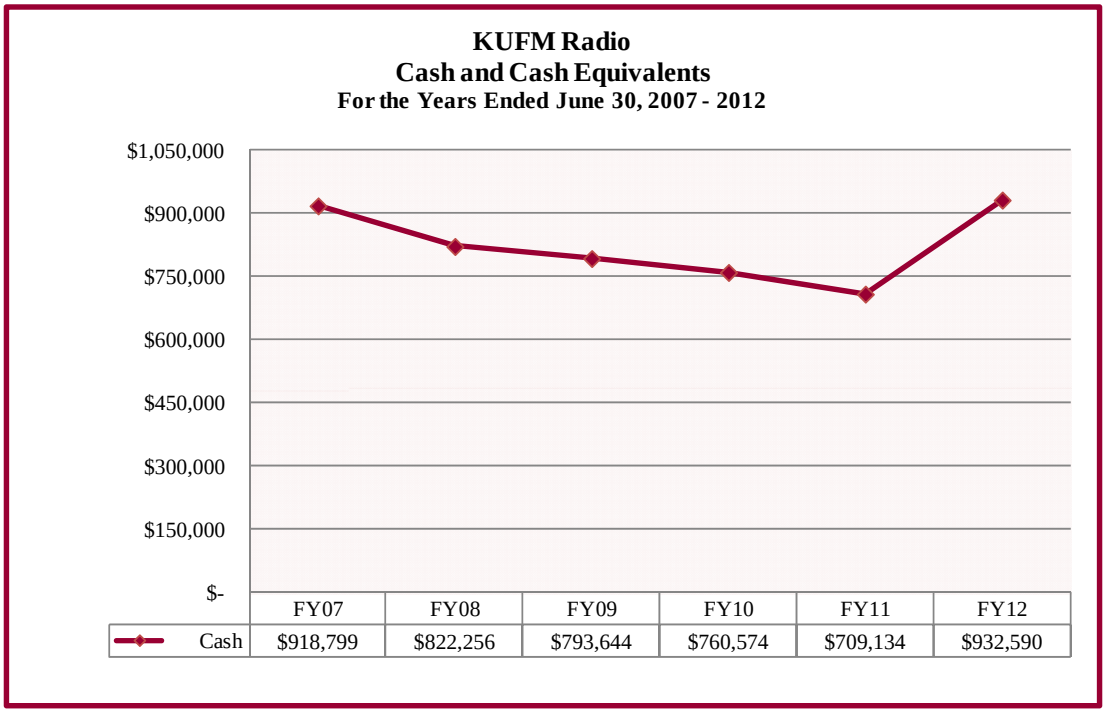
FINANCIAL HIGHLIGHTS AND ANALYSIS (continued)

The following charts illustrate the current year changes and financial position of KUFM over five consecutive years.





FINANCIAL HIGHLIGHTS AND ANALYSIS (continued)



FINANCIAL HIGHLIGHTS AND ANALYSIS (continued)

Statement of Net Assets

The Statement of Net Assets 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 assets) 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 Assets is as follows at June 30:

	2012	2011	2010*
ASSETS			
Total current assets	$ 1,066,022	$ 830,684	$ 773,530
Total non-current assets	642,378	300,724	144,587
Total Assets	$ 1,708,400	$ 1,131,408	$ 918,117
LIABILITIES			
Total current liabilities	$ 332,330	$ 138,845	$ 84,593
Total non-current liabilities	376,135	326,899	247,054
Total Liabilities	708,465	465,744	331,647
NET ASSETS			
Invested in capital assets, net of related debt	571,230	252,599	117,897
Restricted	47,034	43,936	26,690
Unrestricted	381,671	369,129	441,883
Total Net Assets	999,935	665,664	586,470
Total Liabilities and Net Assets	$ 1,708,400	$ 1,131,408	$ 918,117

***Restated**

<u>Events or developments which occurred during 2012</u>

- Current assets increased by over $235,000 in FY12. Cash and cash equivalents increased by $223,000, due in part to a decrease in cash used in operating activities compared to FY11, and accounts receivable increased by $105,000 due to a receivable from a private grant awarded to complete several capital projects. The increases in current assets were offset by a decrease of $93,000 for amounts due from other governments and prepaid expenses.

- Noncurrent assets increased by almost $342,000 due principally to the capitalization of costs incurred to complete construction of two transmission facilities that will provide broader public radio coverage to northwest Montana and the capitalization of other facility upgrade project costs.

- Current liabilities increased by over $193,000 primarily as a result of increases in accounts payable ($90,000) and deferred revenue ($44,000) and property held in trust ($46,000). Deferred revenue, which consists of unrestricted gifts and grants received for a specific purpose can only be recorded as revenue when the related expenses are incurred. The increase in accounts payable and deferred revenue relate primarily to federal and private grants awarded to construct two transmission facilities that were largely completed in FY12.

FINANCIAL HIGHLIGHTS AND ANALYSIS (continued)

- Noncurrent liabilities increased by over $49,000 because of the increase in the OPEB liability of $38,000 and a $21,000 increase in accrued compensated absences, which was offset by a $7,000 decrease in advances from the primary government that was incurred to acquire fund raising software.

  The net OPEB liability reflects the implicit rate subsidy associated with post employment benefits other than pensions.

- Net assets increased by over $334,000 due largely to a $319,000 invested in capital assets increase, net of related debt, which resulted from the capitalization of construction costs and equipment purchases made during the year.

Events or developments which occurred during 2011

- Total assets increased by approximately $213,000 from the prior year, which was due principally to the capitalization of over $175,000 in construction costs incurred to construct 2 transmission facilities that will provide broader public radio coverage to northwest Montana. Current assets increased by over $57,000 primarily from amounts due from the federal government related to the construction projects.

- Current liabilities increased by over $54,000 as a result of increases in accounts payable ($41,000) and deferred revenue ($16,000) offset be a slight decrease the current portion of the compensated absences liability of just over $2,000. Deferred revenue, which consists of unrestricted gifts and grants received for a specific purpose can only be recorded as revenue when the related expenses are incurred. Accounts payable and deferred revenue increased primarily because KUFM saw an increase in federal grant activity to fund capital construction projects.

- Noncurrent liabilities increased by close to $80,000 because of the increase in the OPEB liability of $53,000 and a $38,000 Intercap loan issued to fund the acquisition of fund raising software.

  The net OPEB liability reflects the implicit rate subsidy associated with post employment benefits other than pensions.

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets 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 transactions related directly to fulfilling the entity's purpose (i.e. providing public radio services). Non-operating revenues and expenses are transactions that are not related to the entity's basic operations. An operating loss was reported in the Statement of Revenues, Expenses and Changes in Net Assets primarily because GASB defines private gift revenues as non-operating.

FINANCIAL HIGHLIGHTS AND ANALYSIS (continued)

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

	2012	2011	2010*
Operating revenue	$ 1,026,209	$ 948,995	$ 922,438
Operating expenses	2,318,483	2,218,033	1,886,060
Operating loss	(1,292,274)	(1,269,038)	(963,622)
Non-operating revenues	1,210,652	1,173,649	930,467
Loss before other revenues	(81,622)	(95,389)	(33,155)
Other revenues	415,893	174,583	-
Net change in net assets	334,271	79,194	(33,155)
Net assets, beginning of year	665,664	586,470	619,625
Net assets, end of year	$ 999,935	$ 665,664	$ 586,470

***Restated**

Events or developments which occurred during 2012

- Net assets increased by over $334,000, which is a $255,000 increase over the prior year. This improvement was primarily due to an increase in revenue from capital grants of approximately $241,000 for the signal extension projects and facility improvement projects, which were largely completed during the year. Operating and non operating revenue increased by almost $114,000, offset by an increase in operating expenses of over $100,000.

Events or developments which occurred during 2011

- Net assets increased by over $79,000 which is significant improvement over the prior year decrease in net assets of approximately $33,000. This improvement was primarily from an increase in private gifts revenue of over $242,000 and revenue from capital grants of approximately $175,000 for the signal extension projects underway during the year. Operating expenses increased by around $332,000, offsetting the increase in revenues. A significant operating expenditure in FY11 was the acquisition of fundraising software costing $38,000 that was financed with an Intercap loan.

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.

FINANCIAL HIGHLIGHTS AND ANALYSIS (continued)

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

	2012	2011	2010*
CASH PROVIDED BY (USED IN)			
Operating activities	$ (958,968)	$(1,144,767)	$ (950,013)
Financing activities	1,179,230	1,086,203	907,610
Investing activities	3,194	7,124	9,333
Net change in cash and cash equivalents	$ 223,456	$ (51,440)	$ (33,070)
Cash and cash equivalents – beginning of year	$ 709,134	$ 760,574	$ 793,644
Cash and cash equivalents – end of year	$ 932,590	$ 709,134	$ 760,574

***Restated**

Events or developments which occurred during 2012

Specific events or cash transactions that had a significant influence on the increase in cash (a net cash inflow) of approximately $223,000 during fiscal year 2012 were:

- Net cash used in operating activities decreased by 16% from $1,145,000 to $959,000, or around $186,000. This decrease relates primarily to a decrease in cash used for operating expenses over the prior year of $76,000, coupled with an increase in cash from grants and other operating revenue of $94,000.
- Cash from financing activities increased by 9%, or $93,000, from the prior year due primarily to an increase in cash from private gifts and capital grants of $369,000, which was offset by an increase in cash paid for capital assets of $319,000.
- Net cash from investing activities decreased during the current year, from $7,000 to $3,000, due to less cash available for investing.

Events or developments which occurred during 2011

Specific events or cash transactions that had a significant influence on the decrease in cash (a net cash outflow) of approximately $51,000 during fiscal year 2011 were:

- Cash used in operating activities increased in 2011 by 21% from $950,000 to $1,145,000 or around $194,000. This increase relates primarily to an increase in operating expenses over the prior year.
- Cash from financing activities increased 20% or $179,000 from the prior year due primarily to an increase in cash from private gifts, capital grants and proceeds from an Intercap loan that totaled $360,000, which was offset by cash paid for capital assets of $181,000.
- Net cash from investing activities decreased only slightly during the current year, from $9,000 to $7,000 due to less cash available for investing.

FINANCIAL HIGHLIGHTS AND ANALYSIS (continued)

ECONOMIC OUTLOOK

- Corporation for Public Broadcasting (CPB) funding comprises approximately 14% of MTPR total revenue. Congress consistently targets this federal program for elimination, with special emphasis due to the severity of the national budget crisis. Federal sequestration may trigger a 10% cut in currently allocated funds.

- One of three federally funded grants was completed in FY2012 – an upgrade of the KUFM production studio, satellite interconnect and digital storage and playback systems. Two other federal grants were completed in September, 2012. The US Department of Commerce program (NTIA/PTFP) that funded the projects was eliminated in 2011. Any further infrastructure expansion – or replacement/upgrade projects – must be funded fully by MTPR. Few foundations provide significant funding for infrastructure, complicating the ability to raise capital funds. An updated strategic plan will provide a detailed, prioritized list of infrastructure replacement.

- A new engineering position, shared 50/50 with the UM School of Journalism, was approved in June 2012. It represents the first base-budget increase to the Broadcast Media Center (BMC) since 1991 and completes an objective of the 2007 strategic plan. Next steps include an inventory of the knowledge, skills and abilities of the BMC staff and an evaluation of models to right-size the organization. MTPR personnel cost continues to grow as a percentage of expenses. The relatively high number of .5 FTE and resulting health benefit costs will need close scrutiny in the coming years.

- 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 1.2%) requires yearly payments of approximately $8,000 and will be retired in August, 2015.

- Streaming of the MTPR signal continues to be successful though relatively stagnant. Online listenership consistently approaches 200 simultaneous sessions – a small number compared to on-air listenership – but more ex-patriot Montanans discover the service and pledges from out of state continues to grow. Streaming costs remain minimal (less than $5,000). A strategic plan update has identified the need to hire, or redirect, personnel to manage MTPR online distribution.

- A capital campaign to raise $100,000 to replace strategic reserves used in the FY11/FY12 capital projects is nearing the half-way mark. MTPR has a successful collaboration with MTPBS in the Flathead area to raise capital funds. Public reaction to the collaboration has been enthusiastic and underscores the financial and political benefits of presenting Montana public broadcasting as a single, statewide public media service.

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INDEPENDENT AUDITOR'S REPORT

The University of Montana
Missoula, Montana

We have audited the accompanying statements of net assets of KUFM-FM Radio (a public telecommunications entity operated by The University of Montana) as of June 30, 2012 and 2011, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of KUFM-FM Radio's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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, 2012 and 2011 and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note A to the financial statements, KUFM-FM Radio received $8,168 and $8,162 in in-kind professional fees for the years ended June 30, 2012 and 2011.

Governmental accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedule of funding status for other post employment benefits for health insurance on Pages 1 through 8 and 22 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Galusha Higgins & Galusha, PC

Missoula, Montana
January 28, 2012

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

ASSETS

	2012	2011
CURRENT ASSETS		
Cash and cash equivalents	**$ 932,590**	$ 709,134
Accounts receivable, net	**106,350**	1,052
Due from primary government	**-**	20,863
Due from federal government	**25,031**	90,106
Prepaid expenses	**2,051**	9,529
Total current assets	**1,066,022**	830,684
NONCURRENT ASSETS		
Endowment investments	**41,851**	40,306
Capital assets, net	**600,527**	260,418
Total noncurrent assets	**642,378**	300,724
	$ 1,708,400	$ 1,131,408

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	**$ 125,161**	$ 35,462
Property held in trust for others	**45,713**	-
Due to primary government	**7,465**	7,398
Deferred revenue	**73,331**	29,709
Accrued compensated absences	**80,660**	66,276
Total current liabilities	**332,330**	138,845
NONCURRENT LIABILITIES		
Advances from primary government	**23,198**	30,663
Net OPEB liability	**235,366**	199,512
Accrued compensated absences	**117,571**	96,724
Total liabilities	**708,465**	465,744
NET ASSETS		
Invested in capital assets, net of related debt	**571,230**	252,599
Restricted for nonexpendable	**47,034**	43,936
Unrestricted	**381,671**	369,129
Total net assets	**999,935**	665,664
	$ 1,708,400	$ 1,131,408

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

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

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

for the years ended June 30

	2012	2011
OPERATING REVENUES		
State appropriations	**$ 406,750**	$ 415,163
Grants from state agencies	**5,120**	15,923
Federal grants and contracts	**6,785**	718
Grants from CPB	**223,554**	209,093
Contributions from Friends used for operations	**58,648**	-
Non-governmental grants and contracts	**-**	6,230
Indirect cost recoveries	**281,900**	275,425
Other revenue	**31,478**	19,438
Sales and services of educational departments	**11,974**	7,005
Total operating revenues	**1,026,209**	948,995
OPERATING EXPENSES		
Program services	**1,554,418**	1,536,441
Management and general	**362,763**	301,157
Fundraising	**330,043**	341,875
Depreciation expense	**71,259**	38,560
Total operating expenses	**2,318,483**	2,218,033
OPERATING LOSS	**(1,292,274)**	(1,269,038)
NONOPERATING REVENUES/(EXPENSES)		
Private gifts	**1,206,541**	1,152,910
Investment income	**4,739**	20,739
Interest expense	**(628)**	-
Net nonoperating revenues	**1,210,652**	1,173,649
OTHER REVENUES		
Capital grants and gifts	**415,893**	174,583
NET INCREASE IN NET ASSETS	**334,271**	79,194
NET ASSETS - Beginning of year	**665,664**	586,470
NET ASSETS - End of year	**$ 999,935**	$ 665,664

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

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

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
State appropriations	**$ 406,750**	$ 415,163
Grants from state agencies	**5,675**	-
Federal grants and contracts	**4,000**	718
Grants from CPB	**257,587**	230,949
Contributions from Friends used for operations	**58,648**	-
Other revenue	**31,478**	19,438
Sales and services of educational activities	**11,974**	7,005
Operating expenses	**(1,735,080)**	(1,818,040)
Net cash used in operating activities	**(958,968)**	(1,144,767)
CASH FLOWS FROM FINANCING ACTIVITIES		
Private gifts	**1,195,036**	1,144,748
CASH FLOWS FROM INVESTING ACTIVITIES		
Earnings received on investments	**3,194**	7,124
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Cash paid for capital assets	**(411,368)**	(181,081)
Capital gifts	**403,587**	84,475
Payments on notes payable	**(8,025)**	-
Proceeds from notes payable	**-**	38,061
Net cash used by capital and related financing activities	**(15,806)**	(58,545)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**223,456**	(51,440)
CASH AND CASH EQUIVALENTS - Beginning of year	**709,134**	760,574
CASH AND CASH EQUIVALENTS - End of year	**$ 932,590**	$ 709,134
CASH FLOWS USED IN OPERATING ACTIVITIES		
Operating loss	**$ (1,292,274)**	$ (1,269,038)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	**71,259**	38,560
In-kind contributions	**16,268**	8,162
Increase in accounts receivable	**(6,819)**	(16,186)
(Increase) decrease in prepaid expenses	**7,478**	(2,301)
Increase in accounts payable	**89,699**	33,297
Increase in property held in trust for others	**45,713**	-
Increase in net OPEB liability	**35,854**	52,587
Increase in deferred revenue	**38,623**	15,890
Increase (decrease) in compensated absences	**35,231**	(5,738)
Net cash flows used in operating activities	**$ (958,968)**	$ (1,144,767)

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 and No. 35 provides a comprehensive, entity-wide perspective of KUFM's assets, liabilities, net assets, revenues, expenses, changes in net assets, cash flows, and replaces the fund-group perspective previously required. GASB Statement No. 35 requires that resources be classified for accounting and reporting purposes into the following four net asset 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 assets 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 Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958.

Restricted, expendable – Net assets 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 assets that are not subject to externally imposed restrictions. Unrestricted net assets 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. Substantially all unrestricted net assets are designated for academic and research programs and initiatives, and capital programs.

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.

Grants Receivable. 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.

Deferred 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 deferred 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. Pledges receivable are considered legally unenforceable and are, therefore, not recorded until 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 2012 and 2011, KUFM received $8,168 and $8,162, respectively, of in-kind professional services. They also received $8,100 of in-kind services and lease accommodation in 2012.

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, 2012 and 2011. 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, 2012 or 2011. 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

Continued

NOTE B CAPITAL ASSETS

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

2012	Beginning Balance	Additions	Deletions	Transfers and Other Changes	Ending Balance
Transmission, antenna & tower	**$ 787,467**	**$ 108,134**	**$ (30,236)**	**$ -**	**$ 865,365**
Studio & broadcast equipment	**263,065**	**231,182**	**-**	**-**	**494,247**
Furniture, fixtures, and other equipment	**15,431**	**247,133**	**-**	**-**	**262,564**
Construction in progress	**175,081**	**411,368**	**(586,449)**	**-**	**-**
Total capital assets	**1,241,044**	**997,817**	**(616,685)**	**-**	**1,622,176**
Less accumulated depreciation for:					
Transmission, antenna & tower	**784,778**	**7,209**	**(30,236)**	**-**	**761,751**
Studio & broadcast equipment	**180,417**	**40,144**	**-**	**-**	**220,561**
Furniture, fixtures and other equipment	**15,431**	**23,906**	**-**	**-**	**39,337**
Total accumulated depreciation	**980,626**	**71,259**	**(30,236)**	**-**	**1,021,649**
Capital assets, net	**$ 260,418**	**$ 926,558**	**$ (586,449)**	**$ -**	**$ 600,527**
2011					
Transmission, antenna & tower	$ 800,622	$ 6,000	$ (19,155)	$ -	$ 787,467
Studio & broadcast equipment	263,065	-	-	-	263,065
Furniture, fixtures, and other equipment	15,431	-	-	-	15,431
Construction in progress	-	175,081	-	-	175,081
Total capital assets	1,079,118	181,081	(19,155)	-	1,241,044
Less accumulated depreciation for:					
Transmission, antenna & tower	800,622	3,311	(19,155)	-	784,778
Studio & broadcast equipment	145,168	35,249	-	-	180,417
Furniture, fixtures and other equipment	15,431	-	-	-	15,431
Total accumulated depreciation	961,221	38,560	(19,155)	-	980,626
Capital assets, net	$ 117,897	$ 142,521	$ -	$ -	$ 260,418

Continued

NOTE C 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.

	2012	2011
Intercap loan payable to Montana Board of Investments, current interest rate of 1.95% adjusted annually, biannual principal and interest payments of $4,013 due February 15 and August 15 through February 2016.	**$ 30,663**	$ 38,061
Current portion - Due to primary government	**(7,465)**	(7,398)
	$ 23,198	$ 30,663

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

	Principal	Interest	Total
Intercap Loan Payable			
2013	$ 7,465	$ 563	$ 8,028
2014	7,611	415	8,026
2015	7,760	266	8,026
2016	7,827	114	7,941
	$ 30,663	$ 1,358	$ 32,021

NOTE D 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 Optional Retirement Program (ORP).

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 D EMPLOYEE BENEFIT PLANS, continued

Contribution rates, determined by State law, for 2012 are as follows:

	PERS	TRS	ORP
Employee	6.98%	9.03%	6.91%
Employer	7.17%	9.85%	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 ORP 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 D EMPLOYEE BENEFIT PLANS, continued

Optional Retirement Program (ORP). This system was established in January of 1998, and is underwritten by the Teachers' Insurance and Annuity Association-College Retirement Equity Fund (TIAA-CREF). The ORP is a defined contribution plan. The benefits at retirement depend upon the amount of investing gains and losses and the employee's life expectancy at retirement. Under the ORP, each employee enters into an individual contract with TIAA-CREF (therefore, the employee assumes the investment risk for their retirement). Montana State University records employee/employer contributions, and remits monies to TIAA-CREF. Individuals are immediately vested with contributions. For ORP participants 4.72% was contributed to TRS as employer contributions to amortize past service unfunded liability in accordance with state law. In addition, 2.68% was contributed to PERS from ORP 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 Optional Retirement Plan (ORP) (through TIAA-CREF) or any other defined contribution plan associated with the MUS must have worked five or more years and be age 50, or have worked 25 years with the MUS to be eligible for retiree insurance benefits. The MUS's Interunit Benefits Committee, at the direction of the OCHE, sets the premiums for such participation. Until a retiree reaches age 65, individual retiree participation premiums range from $556 to $1,051 per month, depending on the level of deductible and other selected plan features. Upon reaching age 65 (Medicare eligibility), monthly participation premiums range from $278 to $741 for an individual retiree. Coverage is also extended to dependents and surviving dependents of the employee.

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

Continued

NOTE D 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 year ended June 30, 2012 and June 30, 2011, the University's annual OPEB cost (expense) of $6,610,366 and $9,310,299 was equal to the ARC. The actuarial determination was based on plan information as of July 1, 2011. 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, 2012 and 2011, the University contributed $26,217,528 and $26,261,366 for actively employed participants, whose annual covered payroll totaled $165,497,391 as of the last actuarial valuation. The University does contribute to the plan for retirees or their dependents.

As of the latest actuarial evaluation, the accrued liability for retiree health benefits was $48,159,444, all of which was unfunded. The percentage of annual OPEB cost contributed to the plan was 0% for both years, and the net OPEB obligation was $39,867,018 and $33,256,652 for 2012 and 2011, respectively. The funded status of the plan as of June 30 was 0% for both years.

The Universities' OPEB obligations for 2012 and 2011 are:

Year ended June 30	**2012**	2011
Annual required contribution	**$ 5,196,958**	$ 8,292,578
Interest on net OPEB obligation	**1,413,408**	1,017,721
Annual OPEB cost	**6,610,366**	9,310,299
Contributions made	**-**	-
Increase to net OPEB obligation	**6,610,366**	9,310,299
Net OPEB obligation - beginning of year	**33,256,652**	23,946,353
Net OPEB obligation - end of year	**$ 39,867,018**	$ 33,256,652

Continued

NOTE D 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 E RELATED PARTY TRANSACTIONS

KUFM Radio receives non-monetary contributions from The University of Montana for the space and use of the facility. During 2012 and 2011, these contributions totaled $281,900 and $275,425, which is equivalent to the amount of indirect plant expense incurred during 2012 and 2011, respectively.

NOTE F COMMITMENTS

Under the terms of an agreement with the Great Falls Public Radio Association (GFPRA), KUFM is obligated to pay GFPRA a monthly amount based on GFPRA's annual budgeted expenditures. Such amounts are limited to total annual donor collections from the GFPRA reception area. During 2012 and 2011, such payments totaled $24,000 and $52,000, respectively. 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 31, 2013, with either party having the ability to terminate the agreement at any time upon 60 days written notice.

NOTE G SUBSEQUENT EVENTS

Management has performed an analysis of the activities and transactions subsequent to June 30, 2012 to determine the need for any adjustments to and/or disclosure within the audited financial statements for the year ended June 30, 2012. This analysis has been performed through January 28, 2013, the date the financial statements were available to be issued.

Concluded

REQUIRED SUPPLEMENTAL INFORMATION

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

SCHEDULE OF FUNDING STATUS FOR OTHER POST RETIREMENT BENEFITS FOR HEALTH INSURANCE

June 30, 2012 and 2011

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

	2009	2011
Actuarial accrued liability (AAL)	$ 80,475,030	$ 48,159,444
Actuarial value of plan assets	-	-
Unfunded actuarial accrued liability (UAAL)	$ 80,475,030	$ 48,159,444
Funded ratio (actuarial value of plan assets/AAL)	0.00%	0.00%
Covered payroll (active plan members)	$ 167,395,949	$ 165,497,391
UAAL as a percentage of covered payroll	48.07%	29.10%

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**
Interest/Discount rate	4.25%	4.25%
Projected payroll increases	2.50%	2.50%
Participant Percentage:		
Future retirees assumed to elect covereage at retirement	55.00%	55.00%
Future eligible spouses of future retirees assumed to elect coverage	60.00%	60.00%