

FRIENDS OF MONTANA PBS, INC.
AUDITED FINANCIAL STATEMENTS
June 30, 2017 and 2016



AMATICS
CPA GROUP

FRIENDS OF MONTANA PBS, INC.
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AUDITED FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Friends of Montana PBS, Inc.
Bozeman, Montana

We have audited the accompanying financial statements of the Friends of Montana PBS, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 Organization'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 Organization'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 the Friends of Montana PBS, Inc. as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Amatics CPA Group

Bozeman, Montana
September 22, 2017



AmaticsCPA.com

**FRIENDS OF MONTANA PBS, INC.
STATEMENTS OF FINANCIAL POSITION**

ASSETS

| | June 30 | |
|--------------------------------|--------------------------------|--------------------------------|
| | <u>2017</u> | <u>2016</u> |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 85,552 | \$ 93,260 |
| Prepaid expenses | 4,827 | 5,719 |
| Premium inventory | <u>9,331</u> | <u>10,433</u> |
| | 99,710 | 109,412 |
| INVESTMENTS, restricted | 1,112,423 | 1,039,999 |
| OTHER ASSETS | | |
| Restricted cash | <u>137,047</u> | <u>141,556</u> |
| Totals | <u><u>\$ 1,349,180</u></u> | <u><u>\$ 1,290,967</u></u> |

LIABILITIES AND NET ASSETS

| | | |
|----------------------------|--------------------------------|--------------------------------|
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 5,769 | \$ 3,725 |
| Due to affiliates | <u>11,115</u> | <u>20,271</u> |
| | <u>16,884</u> | <u>23,996</u> |
| NET ASSETS | | |
| Unrestricted | 82,826 | 87,338 |
| Temporarily restricted | <u>1,249,470</u> | <u>1,179,633</u> |
| | <u>1,332,296</u> | <u>1,266,971</u> |
| Totals | <u><u>\$ 1,349,180</u></u> | <u><u>\$ 1,290,967</u></u> |

See notes to financial statements.

FRIENDS OF MONTANA PBS, INC.
STATEMENT OF ACTIVITIES
Year ended June 30, 2017

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Totals</u> |
|---|---------------------|-----------------------------------|---------------------|
| REVENUE AND SUPPORT | | | |
| Donations - unrestricted | \$ 1,053,344 | \$ - | \$ 1,053,344 |
| Donations - restricted | - | 350,342 | 350,342 |
| Membership dues | 750,410 | - | 750,410 |
| Interest and dividend income | 81 | 19,703 | 19,784 |
| Realized gain on investments | - | 5,293 | 5,293 |
| Unrealized loss on investments | - | 44,421 | 44,421 |
| Satisfaction of program restrictions | <u>349,922</u> | <u>(349,922)</u> | <u>-</u> |
| Total revenue and support | <u>2,153,757</u> | <u>69,837</u> | <u>2,223,594</u> |
| EXPENSES | | | |
| Program Services - Payments to Affiliates | | | |
| KUSM television per contract | 1,085,036 | - | 1,085,036 |
| KUFM television per contract | 271,260 | - | 271,260 |
| KUSM television programming support | 95,254 | - | 95,254 |
| KUFM television programming support | 61,325 | - | 61,325 |
| KUSM additional support for operations | - | - | - |
| KUSM equipment | 102,990 | - | 102,990 |
| KUSM education services | <u>5,500</u> | <u>-</u> | <u>5,500</u> |
| | <u>1,621,365</u> | <u>-</u> | <u>1,621,365</u> |
| Other Program Services | | | |
| Program guide costs | <u>77,020</u> | <u>-</u> | <u>77,020</u> |
| Fundraising | | | |
| Credit card and bank fees | 34,118 | - | 34,118 |
| Pledge drive premiums and support | 156,059 | - | 156,059 |
| Postage and direct mail preparation | 135,984 | - | 135,984 |
| Promotion and promotional premiums | <u>12,792</u> | <u>-</u> | <u>12,792</u> |
| | <u>338,953</u> | <u>-</u> | <u>338,953</u> |
| Management and Administrative | | | |
| Accounting and bookkeeping services | 16,744 | - | 16,744 |
| Contracted services | 85,336 | - | 85,336 |
| Insurance | 1,880 | - | 1,880 |
| Miscellaneous | 2,156 | - | 2,156 |
| Travel and conferences | <u>14,815</u> | <u>-</u> | <u>14,815</u> |
| | <u>120,931</u> | <u>-</u> | <u>120,931</u> |
| Total operating expenses | <u>2,158,269</u> | <u>-</u> | <u>2,158,269</u> |
| CHANGE IN NET ASSETS | (4,512) | 69,837 | 65,325 |
| Net assets, beginning of year | <u>87,338</u> | <u>1,179,633</u> | <u>1,266,971</u> |
| NET ASSETS, END OF YEAR | <u>\$ 82,826</u> | <u>\$ 1,249,470</u> | <u>\$ 1,332,296</u> |

See notes to financial statements.

FRIENDS OF MONTANA PBS, INC.
STATEMENT OF ACTIVITIES
Year ended June 30, 2016

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Totals</u> |
|---|---------------------|-----------------------------------|---------------------|
| REVENUE AND SUPPORT | | | |
| Donations - unrestricted | \$ 966,376 | \$ - | \$ 966,376 |
| Donations - restricted | - | 173,171 | 173,171 |
| Membership dues | 691,475 | - | 691,475 |
| Interest and dividend income | 78 | 18,434 | 18,512 |
| Unrealized loss on investments | - | (10,318) | (10,318) |
| Satisfaction of program restrictions | <u>147,181</u> | <u>(147,181)</u> | <u>-</u> |
| Total revenue and support | <u>1,805,110</u> | <u>34,106</u> | <u>1,839,216</u> |
| EXPENSES | | | |
| Program Services - Payments to Affiliates | | | |
| KUSM television per contract | 989,650 | - | 989,650 |
| KUFM television per contract | 247,413 | - | 247,413 |
| KUSM television programming support | 61,023 | - | 61,023 |
| KUFM television programming support | 41,000 | - | 41,000 |
| KUSM equipment | <u>42,105</u> | <u>-</u> | <u>42,105</u> |
| | <u>1,381,191</u> | <u>-</u> | <u>1,381,191</u> |
| Other Program Services | | | |
| Program guide costs | <u>74,377</u> | <u>-</u> | <u>74,377</u> |
| Fundraising | | | |
| Credit card and bank fees | 28,446 | - | 28,446 |
| Pledge drive premiums and support | 137,079 | - | 137,079 |
| Postage and direct mail preparation | 141,095 | - | 141,095 |
| Promotion and promotional premiums | 4,800 | - | 4,800 |
| Special events | <u>385</u> | <u>-</u> | <u>385</u> |
| | <u>311,805</u> | <u>-</u> | <u>311,805</u> |
| Management and Administrative | | | |
| Accounting and bookkeeping services | 17,267 | - | 17,267 |
| Insurance | 1,880 | - | 1,880 |
| Miscellaneous | 591 | - | 591 |
| Travel and conferences | <u>14,870</u> | <u>-</u> | <u>14,870</u> |
| | <u>34,608</u> | <u>-</u> | <u>34,608</u> |
| Total operating expenses | <u>1,801,981</u> | <u>-</u> | <u>1,801,981</u> |
| CHANGE IN NET ASSETS | 3,129 | 34,106 | 37,235 |
| Net assets, beginning of year | <u>84,209</u> | <u>1,145,527</u> | <u>1,229,736</u> |
| NET ASSETS, END OF YEAR | <u>\$ 87,338</u> | <u>\$ 1,179,633</u> | <u>\$ 1,266,971</u> |

See notes to financial statements.

**FRIENDS OF MONTANA PBS, INC.
STATEMENTS OF CASH FLOWS**

| | Years ended June 30 | |
|---|----------------------------|-------------------|
| | 2017 | 2016 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ 65,325 | \$ 37,235 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Unrealized (gain) loss on investment | (44,421) | 10,318 |
| Realized gain on investment | (5,293) | - |
| (Increase) decrease in: | | |
| Prepaid expenses | 891 | 537 |
| Premium inventory | 1,102 | (1,792) |
| Increase (decrease) in: | | |
| Accounts payable | 2,044 | (1,208) |
| Due to affiliate | (9,156) | (3,665) |
| Net cash provided by operating activities | <u>10,492</u> | <u>41,425</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of investments | (65,847) | (14,114) |
| Proceeds from sale of investments | <u>43,138</u> | <u>-</u> |
| Net cash used by investing activities | <u>(22,709)</u> | <u>(14,114)</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (12,217) | 27,311 |
| Cash and cash equivalents, beginning of year | <u>234,816</u> | <u>207,505</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u>\$ 222,599</u> | <u>\$ 234,816</u> |
| Cash and cash equivalents - unrestricted | \$ 85,552 | \$ 93,260 |
| Cash and cash equivalents - restricted | <u>137,047</u> | <u>141,556</u> |
| Total cash and cash equivalents | <u>\$ 222,599</u> | <u>\$ 234,816</u> |

See notes to financial statements.

FRIENDS OF MONTANA PBS, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization:

The Friends of Montana PBS, Inc., is a not-for-profit Organization under Internal Revenue Code Section 501(c)(3) and is classified as other than a private foundation. Friends of Montana PBS, Inc. raises funds to provide financial and other support to KUSM-TV, a public television station under license by Montana State University (MSU) and KUFM-TV, a public television station under license by the University of Montana (UM). The support provided includes fundraising, positive community relations, a volunteer system, and related administrative services.

The administration of the Organization is provided by a volunteer Board of Directors consisting of 8 to 26 members. One member of the Board of Directors shall be the General Manager of KUSM and one member the General Manager of KUFM. One member shall be the President of Montana State University and one member shall be the President of the University of Montana or a person designated annually by the respective Presidents to serve on their behalf.

Income Taxes:

The Organization, since inception, has elected under Section 501(c)(3) of the Internal Revenue Code to be a tax-exempt organization other than a private foundation. Accordingly, no provision for income taxes has been recorded. The Organization's information returns (Form 990) are open to examination by the IRS, generally, for three years after they were filed or the due date of the return, whichever is later.

Basis of Accounting

The financial statements are reported on the accrual basis in accordance with accounting principles generally accepted in the United States of America. Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

- Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations. The Board of Directors may designate unrestricted net assets for specific purposes.
- Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time. Temporarily restricted funds consist of campaign proceeds which are designated to be used for the DTV conversion and expansion of the signal statewide.
- Permanently restricted net assets - Net assets subject to donor-imposed stipulations that permanently restrict the use of the assets to be maintained by the Organization in perpetuity. Generally, the donors of these assets permit the Organization to use income earned on related investments for general or specific purposes.

Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

FRIENDS OF MONTANA PBS, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents:

Cash and cash equivalents are defined as all cash and short-term investments with an original maturity of three months or less, unless restricted by the donor to long-term investments. Account balances held in financial institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per bank, per depositor. At times, cash and savings account balances in the Organization's accounts may exceed federally insured limits.

Inventories:

Inventory consists of membership premium items which are valued at the lower of cost or market by methods approximating a first-in, first-out basis.

Donation Income:

Contributions are recognized when earned which is when the contributions are received, or pledges are made. Pledges receivable are recorded as a result of fundraising drives. In the years ended June 30, 2017 and 2016, \$350,342 and \$173,171, respectively, of the contributions were restricted for "non-operating" reserve funds. Donations consist of funds raised through on-air pledge drives, direct mail solicitations and door-to-door solicitations. The Organization uses the direct write-off method to account for uncollectible pledges.

Membership Dues:

Members pay annual dues in the amount of \$35 and \$65 or \$25 for seniors. In return, members receive a Montana PBS program guide each month.

Concentration of Income:

The Friends of Montana PBS, Inc. receives over 95% of its revenue from donations and membership dues.

Advertising Expenses:

The Organization expenses advertising costs as they are incurred.

2. PAYMENTS TO AFFILIATES

The Friends of Montana PBS, Inc. has an agreement with Montana Public Television which is made up of KUSM and KUFM. Per this agreement, the Friends will raise funds for Montana Public Television, invest the funds and provide a reasonable budget for its operating and administrative expenses.

Pursuant to the affiliation agreement, each station agrees to present to the Organization an annual network agreement specifying the funds to be allocated among the MSU station and the UM station. The Organization will disburse the allocated funds in accordance with the agreement within a reasonable time, but not later than the last day of the fiscal year. In the years ended June 30, 2017 and 2016, the Organization paid in periodic payments to MSU \$1,085,036 and \$989,650 for support, and \$271,260 and \$247,413 to UM, respectively.

FRIENDS OF MONTANA PBS, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

3. FUNCTIONAL EXPENSES

For the year ended June 30, 2017, of the total expenses of \$2,158,269, 75% is payments to affiliates of KUSM-TV and KUFM-TV and related expenses; 4% for program services which are the program guide; 6% relates to supporting services; and 16% is fundraising.

For the year ended June 30, 2016, of the total expenses of \$1,801,981, 77% is payments to affiliates of KUSM-TV and KUFM-TV and related expenses; 4% for program services which are the program guide; 2% relates to supporting services; and 17% is fundraising.

4. FUNDRAISING ACTIVITIES

Fundraising activities include pledge drives, direct mail solicitations to current members for additional gifts and to prospective members, and campaign fundraising. Total fundraising expenditures in the fiscal years ended June 30, 2017 and 2016, were \$338,953 and \$311,805, respectively.

5. PROGRAM SERVICES

The Organization's program services include publishing a program guide for viewers of Montana Public Television. The guide cost \$77,020 and \$74,377, respectively, for the years ended June 30, 2017 and 2016.

6. INVESTMENTS

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and enhances disclosures about fair value measurements. Fair value is defined under ASC 820 as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value under ASC 820 must maximize the use of observable inputs and minimize the use of unobservable inputs.

The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable, and the last unobservable, that may be used to measure fair value, which are the following:

Level 1 - Quoted market prices in active markets for identical assets or liabilities.

Level 2- Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted market prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs for the asset or liability. Unobservable inputs shall be used to measure fair value to the extent that the observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.

FRIENDS OF MONTANA PBS, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

6. INVESTMENTS (Continued)

Cost and fair market value of investments as of June 30, 2017 and 2016 were as follows:

| | <u>Cost</u> | <u>Gross Unrealized Gains (Losses)</u> | <u>Fair Value</u> |
|-----------------------------------|---------------------|--|---------------------|
| June 30, 2017: | | | |
| Certificates of deposit - Level 2 | \$ 426,000 | \$ 863 | \$ 426,863 |
| Mutual Funds - Level 1 | | | |
| Bond funds | 211,803 | 114 | 211,917 |
| Senior loan funds | 49,240 | (1,965) | 47,275 |
| Large cap blend funds | 82,152 | 4,620 | 86,772 |
| Large cap growth funds | 104,270 | 21,372 | 125,642 |
| Large cap value funds | 134,317 | 13,034 | 147,351 |
| Small cap growth funds | 24,732 | 5,140 | 29,872 |
| Small cap value funds | <u>30,993</u> | <u>5,738</u> | <u>36,731</u> |
| Total investments | <u>\$ 1,063,507</u> | <u>\$ 48,916</u> | <u>\$ 1,112,423</u> |
| | | | |
| | <u>Cost</u> | <u>Gross Unrealized Gains (Losses)</u> | <u>Fair Value</u> |
| June 30, 2016: | | | |
| Certificates of deposit - Level 2 | \$ 417,000 | \$ 3,960 | \$ 420,960 |
| Mutual Funds - Level 1 | | | |
| Bond funds | 196,906 | 3,825 | 200,731 |
| Senior loan funds | 49,414 | (2,486) | 46,928 |
| Large cap blend funds | 82,152 | (7,896) | 74,256 |
| Large cap growth funds | 135,688 | 2,278 | 137,966 |
| Large cap value funds | 98,918 | (414) | 98,504 |
| Small cap growth funds | 31,160 | (569) | 30,591 |
| Small cap value funds | <u>30,993</u> | <u>(930)</u> | <u>30,063</u> |
| Total investments | <u>\$ 1,042,231</u> | <u>\$ (2,232)</u> | <u>\$ 1,039,999</u> |

7. COMMITMENTS AND CONTINGENCIES

The Friends has established a budget policy for “non-operating” reserve funds that includes an annual management review of a rolling 5-year contingency fund. That fund currently contains set-asides for a number of possible contingencies, as well as unknown capital needs, and totals around \$165,000. This fund is addressed as part of an annual budgeting process, and can be added to as needed.

8. SUBSEQUENT EVENTS

Date of Management Evaluation

Management has evaluated subsequent events through September 22, 2017, the date on which the financial statements were available to be issued.