



Financial Statements
September 30, 2014 and 2013

Prairie Public Broadcasting, Inc.

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Independent Auditor's Report

The Board of Directors
Prairie Public Broadcasting, Inc.
Fargo, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of Prairie Public Broadcasting, Inc. (Organization), which comprise the statements of financial position as of September 30, 2014 and 2013, 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.

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 of America and the standards applicable to financial audits contained in *Government Audit Standards*, issued by the Comptroller General of 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 Organization as of September 30, 2014 and 2013, 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.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information (actual column) on pages 23 through 33 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information (actual column) on pages 23 through 33 is fairly stated in all material respects in relation to the financial statements as a whole.

The supplementary information (budget column) on pages 23 through 33 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated January 15, 2015 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Eric Bailly LLP". The signature is written in a cursive, flowing style.

Fargo, North Dakota
January 15, 2015

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	2014	2013
Assets		
Current Assets		
Cash	\$ 2,209,659	\$ 2,231,481
Grants receivable	538,708	995,330
Contributions receivable, net of allowance for uncollectible accounts of \$7,000 and \$5,000 in 2014 and 2013	231,783	171,516
Trade accounts receivable, net of allowance for uncollectible accounts of \$22,000 and \$21,000 in 2014 and 2013	427,637	269,393
Inventory	22,083	28,383
Prepaid expenses	515,872	644,488
Total current assets	<u>3,945,742</u>	<u>4,340,591</u>
Property and Equipment	<u>12,769,323</u>	<u>13,489,336</u>
Other Assets		
Board directed endowment	1,781,744	1,401,073
Investments	3,089,948	2,542,234
Patronage refunds receivable	497,504	455,542
Total other assets	<u>5,369,196</u>	<u>4,398,849</u>
Total assets	<u>\$ 22,084,261</u>	<u>\$ 22,228,776</u>

See Notes to Financial Statements

Prairie Public Broadcasting, Inc.
Statements of Financial Position
September 30, 2014 and 2013

	2014	2013
Liabilities and Net Assets		
Current Liabilities		
Current portion of deferred contract revenues	\$ 6,750	\$ 6,750
Accounts payable	237,207	171,554
Accrued liabilities	613,260	608,594
Deferred grants revenues	995,705	1,661,338
Total current liabilities	1,852,922	2,448,236
Deferred Contract Revenues, Net of Current Portion	42,188	48,938
Total liabilities	1,895,110	2,497,174
Net Assets		
Unrestricted		
General reserves	7,694,191	7,209,916
Board designated	1,781,744	1,401,073
Property and equipment	10,593,681	11,046,078
Total unrestricted	20,069,616	19,657,067
Permanently restricted	119,535	74,535
Total net assets	20,189,151	19,731,602
Total liabilities and net assets	\$ 22,084,261	\$ 22,228,776

Prairie Public Broadcasting, Inc.
Statement of Activities
Year Ended September 30, 2014

	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public Support and Revenue				
Members	\$ 1,964,120	\$ -	\$ -	\$ 1,964,120
Corporation for Public Broadcasting	1,439,596	-	-	1,439,596
Grants	432,201	1,026,073	-	1,458,274
State support	1,218,568	338,955	-	1,557,523
Underwriting	312,899	415,888	-	728,787
Fees	38,726	-	-	38,726
Gaming (net of prize payouts and cost of sales)	2,463,637	-	-	2,463,637
Other	667,316	-	45,000	712,316
Rents	598,924	-	-	598,924
Realized and unrealized gains and (losses) on investments	86,672	-	-	86,672
Interest	29,537	1,738	-	31,275
Gain on sale of equipment	12,220	-	-	12,220
Net assets released from restrictions	1,782,654	(1,782,654)	-	-
Total public support and revenue	<u>11,047,070</u>	<u>-</u>	<u>45,000</u>	<u>11,092,070</u>
Expenses				
Program services				
Television	5,362,654	-	-	5,362,654
Radio	1,589,112	-	-	1,589,112
Total program services	<u>6,951,766</u>	<u>-</u>	<u>-</u>	<u>6,951,766</u>
Supporting services				
Development	515,137	-	-	515,137
General administration	1,380,464	-	-	1,380,464
Total support services	<u>1,895,601</u>	<u>-</u>	<u>-</u>	<u>1,895,601</u>
Gaming and concessions	1,787,154	-	-	1,787,154
Total expenses	<u>10,634,521</u>	<u>-</u>	<u>-</u>	<u>10,634,521</u>
Revenues in Excess of Expenses and Increase in Net Assets	412,549	-	45,000	457,549
Net Assets, Beginning of the Year	19,657,067	-	74,535	19,731,602
Net Assets, End of Year	<u>\$ 20,069,616</u>	<u>\$ -</u>	<u>\$ 119,535</u>	<u>\$ 20,189,151</u>

Prairie Public Broadcasting, Inc.
Statement of Activities
Year Ended September 30, 2013

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public Support and Revenue				
Members	\$ 1,959,288	\$ -	\$ -	\$ 1,959,288
Corporation for Public Broadcasting	1,283,520	2,500	-	1,286,020
Grants	394,985	970,696	-	1,365,681
State support	859,942	375,993	-	1,235,935
Underwriting	363,158	661,122	-	1,024,280
Fees	39,670	-	-	39,670
Gaming (net of prize payouts and cost of sales)	2,786,077	-	-	2,786,077
Other	464,949	-	10,000	474,949
Rents	573,324	-	-	573,324
Realized and unrealized gains and (losses) on investments	100,013	-	-	100,013
Interest	22,588	-	-	22,588
Net assets released from restrictions	2,010,311	(2,010,311)	-	-
Total public support and revenue	10,857,825	-	10,000	10,867,825
Expenses				
Program services				
Television	5,460,358	-	-	5,460,358
Radio	1,487,178	-	-	1,487,178
Total program services	6,947,536	-	-	6,947,536
Supporting services				
Development	503,123	-	-	503,123
General administration	1,323,515	-	-	1,323,515
Total support services	1,826,638	-	-	1,826,638
Gaming and concessions	2,074,856	-	-	2,074,856
Total expenses	10,849,030	-	-	10,849,030
Revenues in Excess of Expenses and Increase in Net Assets	8,795	-	10,000	18,795
Net Assets, Beginning of the Year	19,648,272	-	64,535	19,712,807
Net Assets, End of Year	\$ 19,657,067	\$ -	\$ 74,535	\$ 19,731,602

Prairie Public Broadcasting, Inc.
Statements of Cash Flows
Years Ended September 30, 2014 and 2013

	2014	2013
Operating Activities		
Change in net assets	\$ 457,549	\$ 18,795
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	1,847,074	1,971,532
Net unrealized gain on investments	(37,615)	(73,746)
Net realized gain on investments	(49,057)	(26,267)
Gain on sale of equipment	(12,220)	-
Changes in assets and liabilities		
Grants receivable	456,622	(788,331)
Contributions receivable	(60,267)	(39,964)
Accounts receivable	(158,244)	6,297
Inventory	6,300	645
Prepaid expenses	128,616	(179,039)
Patronage refunds receivable	(41,962)	(38,043)
Accounts payable	65,653	850
Accrued liabilities	4,666	3,410
Deferred revenue	(672,383)	792,636
Net Cash from Operating Activities	1,934,732	1,648,775
Investing Activities		
Purchases and construction of property and equipment	(1,127,061)	(1,360,585)
Proceeds from sale of investments	1,245,915	1,346,155
Proceeds from sale of equipment	12,220	-
Purchases of investments	(2,087,628)	(1,757,133)
Net Cash used for Investing Activities	(1,956,554)	(1,771,563)
Net Decrease in Cash	(21,822)	(122,788)
Cash, Beginning of Year	2,231,481	2,354,269
Cash, End of Year	\$ 2,209,659	\$ 2,231,481

Note 1 - Principal Activity and Significant Accounting Policies

Organization and Nature of Operations

Prairie Public Broadcasting, Inc. (Organization) is a trusted public service dedicated to building an exciting and productive future for the prairie and its people. Prairie Public Broadcasting, Inc. offers a window on the world through national and regional television and radio programming; creates a forum for the most important issues facing our region with locally produced, topical documentaries; partners with others to foster education for all ages; and utilizes digital technology and Web services to expand those valued services. Beginning with a single television transmitter in Fargo, Prairie Public Broadcasting, Inc. has grown to become the premier broadcaster of public television and radio services throughout the prairie region.

The Organization operates nine non-commercial television stations, (KBME-DT – Bismarck, ND; KCGE-DT – Crookston, MN; KMDE-DT – Devils Lake, ND; KDSE-TV – Dickinson, ND; KJRE-DT – Ellendale, ND; KFME-TV – Fargo, ND; KFGE-TV – Grand Forks, ND; KSRE-DT – Minot, ND; and KWSE—DT – Williston, ND), and ten non-commercial public FM radio stations (KCND-FM – Bismarck, ND; KPPD-FM – Devils Lake, ND; KDPR-FM – Dickinson, ND; KDSU-FM – Fargo, ND; KFJM-FM – Grand Forks, ND; KUND-FM – Grand Forks, ND; KPRJ-FM – Jamestown, ND; KMPR-FM – Minot, ND; KPPW-FM – Williston, ND; and KPPR-FM – Williston, ND). The financial statements include the accounts of all affiliated stations operated by the Organization. The Organization raises funds through pledges, donations, and charitable gaming activities at several locations.

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Cash and Cash Equivalents

The Organization considers all cash and highly liquid financial instruments with original maturities of three months or less, and which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to capital expenditures, permanent endowment, or other long-term purposes of the Organization are excluded from this definition.

Grants Receivable

The Organization receives grants from federal and private agencies for various programs. Grants receivable represents amounts requested from granting agencies for services performed. Grants receivable is reduced once the cash has been received from the granting agencies.

Contributions Receivable

Contributions receivable expected to be collected within one year are recorded at net realizable value. Contributions receivable to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statement of activities. Management determines the allowance for uncollectable contributions receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Contributions receivable are written off when deemed uncollectable.

Receivables and Credit Policies

Trade receivables are uncollateralized customer obligations due under normal trade terms requiring payment within 30 days from the invoice date. The receivables are non-interest bearing. Payments of trade receivables are applied to the earliest unpaid invoices. The carrying amount of trade receivables is reduced by an amount that reflects management's best estimate of the amounts that will not be collected.

Inventory

Inventory includes gaming jar tickets, bingo paper, concession supplies and resale promotional items, and is stated at the lower of cost or market determined by the first-in, first-out method.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Property and Equipment

Property and equipment acquisitions in excess of \$1,000 for equipment and \$5,000 for buildings and land are recorded at cost, or if donated, at fair value on the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from three to forty years, or in the case of leasehold improvements, the lesser of the useful life of the asset or the lease term. When assets are sold or otherwise disposed of, the cost and related depreciation is removed from the accounts, and any remaining gain or loss is included in the statements of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

Gifts of long-lived assets such as land, buildings, or equipment are reported as additions to unrestricted net assets, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted net assets. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when donated or when acquired long-lived assets are placed in service.

The Organization reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the years ended September 30, 2014 and 2013.

Board Directed Endowment

The Board Directed Endowment includes investments set aside by the Board of Directors. The earnings on these investments are available to support operations. The Board Directed Endowment is reflected as a noncurrent asset and a board designated investment in the accompanying financial statements.

Investments

Investment purchases are recorded at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statement of financial position. Net investment gain/(loss) is reported in the statement of activities and consists of interest and dividend income, realized and unrealized gains and losses, less investment management and custodial fees.

Patronage Refund Receivable

Patronage refund receivable represents undistributed balances held by utility cooperative organizations for the account of the Organization. These patronage refunds are distributed at the discretion of the cooperatives' management and/or boards of directors.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted Net Assets – Net assets available for use in general operations. Unrestricted board-designated net assets consist of net assets designated by the Board of Directors for operating reserve and quasi-endowment. Unrestricted net assets reserved for property and equipment represents property and equipment for engineering, radio and television broadcasting. The property and equipment are included in unrestricted net assets along with gaming and other equipment.

Temporarily Restricted Net Assets – Net assets subject to donor restrictions that may or will be met by expenditures or actions of the Organization and/or the passage of time, and certain income earned on permanently restricted net assets that has not yet been appropriated for expenditure by the Organization's Board of Directors.

The Organization reports contributions as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted Net Assets – Net assets whose use is limited by donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by action of the Organization. The restrictions stipulate that resources be maintained permanently but permit the Organization to expend the income generated in accordance with the provisions of the agreements

Revenue Recognition

Revenue is recognized when earned. Program service fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Fund Raising Costs

The costs of fund raising are presented as development expenses included in support services on the statements of activities. There were no joint costs allocated to fund raising costs in either year presented. Fund raising expenses were approximately \$537,000 and \$524,000 for the years ended September 30, 2014 and 2013.

Advertising

The Organization uses advertising to promote its programs. The costs of advertising and promotion are expensed as incurred. During 2014 and 2013, advertising and promotion costs totaled \$73,805 and \$71,658.

Income Taxes

The Organization is organized as a North Dakota nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Organization is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Organization is subject to income tax on net income that is derived from business activities that are unrelated to their exempt purposes. The Organization files an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS to report its unrelated business taxable income.

The Organization believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Organization would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred. The Organization's Federal Form 990T filings are no longer subject to federal tax examinations by tax authorities for years before 2011.

Gaming Taxes

The state of North Dakota assesses a tax on gaming gross proceeds.

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 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 and those differences could be material.

Financial Instruments and Credit Risk

The Organization manages deposit concentration risk by placing cash, money market accounts, and certificates of deposit with financial institutions believed by management to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, the Organization has not experienced losses in any of these accounts. Credit risk associated with accounts receivable and contributions receivable is considered to be limited due to high historical collection rates. Investments are made by diversified investment managers whose performance is monitored by management and the Board of Directors. Although the fair values of investments are subject to fluctuation on a year-to-year basis, management and the Board of Directors believe that the investment policies and guidelines are prudent for the long-term welfare of the Organization.

Note 2 - Property and Equipment

Property and equipment consists of the following at September 30, 2014 and 2013:

	2014	2013
Land	\$ 680,971	\$ 663,042
Buildings and improvements	4,268,812	4,268,812
Vehicles and equipment	34,757,793	34,409,681
Construction in process	2,182,273	1,500,106
	41,889,849	40,841,641
Less accumulated depreciation	(29,120,526)	(27,352,305)
Net property and equipment	\$ 12,769,323	\$ 13,489,336

A significant portion of the Organization's equipment for producing and transmitting programs has been purchased with federal grant funds. Federal regulations require that the federal government be given a lien on such property. The lien is for a ten-year period beginning when the asset is placed in service. Depreciation expense on property and equipment totaled \$1,847,074 and \$1,971,532 for the years ended September 30, 2014 and 2013.

Construction in progress at September 30, 2014 represents costs for two projects. The estimated cost to complete these PBS Warn project is \$632,000 and the Bismarck Radio Building project is \$100,000. Both projects are expected to be completed in calendar year 2015.

Note 3 - Investments and Investment Income

Board Directed Endowment

The Board Directed Endowment investments at September 30, 2014 and 2013 are shown in the following table. Investments in corporate debt obligations, equity securities, and stock mutual funds are stated at fair value. Investments in cash and cash equivalents are stated at cost plus accrued interest, if applicable.

	2014	2013
Board Directed Endowment		
Corporate debt obligations	\$ 315,484	\$ 291,300
Equity securities	601,581	372,974
Stock mutual funds	614,495	376,972
Alternative	101,114	77,152
Cash and cash equivalents	149,070	282,675
	\$ 1,781,744	\$ 1,401,073

Investments

Investments in cash and cash equivalents and certificates of deposit are stated at cost plus accrued interest, if applicable. Investments in corporate debt obligations, stock mutual funds, and other investments are stated at fair value. Investments include the following at September 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Investments		
Certificates of deposit	\$ 3,000,000	\$ 2,500,000
Endowment		
Corporate debt obligations	15,346	2,866
Stock mutual funds	29,149	5,537
Alternative	11,982	1,589
Cash and cash equivalents	303	50
Other	33,168	32,192
	<u>\$ 3,089,948</u>	<u>\$ 2,542,234</u>

Investment Income

Investment income on investments, cash equivalents, and board directed investments consist of the following for the years ended September 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Investment income	\$ 31,275	\$ 22,588
Realized gains (losses)	\$ 49,057	\$ 26,267
Unrealized gains (losses)	37,615	73,746
	<u>\$ 86,672</u>	<u>\$ 100,013</u>

Note 4 - Permanently Restricted Net Assets

Permanently restricted funds consist of the following at September 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Investments to be held in perpetuity, the income from which is to be used to support operations	\$ 119,535	\$ 74,535

Note 5 - Endowments

The Organization's endowment (Endowment) consists of funds established by donors to provide annual funding for specific activities and general operations. The Endowment also includes certain unrestricted net assets designated for endowment by the Board of Directors. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Organization's Board of Directors has interpreted the North Dakota Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. At September 30, 2014 and 2013, there were no such donor stipulations. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the Endowment, (b) the original value of subsequent gifts donated to the Endowment (including promises to give net of discount and allowance for doubtful accounts, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. The remaining portion of the donor restricted endowment is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

The Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the organization
- The investment policies of the organization

At September 30, 2014 and 2013, the Organization had the following endowment net asset composition by type of fund:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
September 30, 2014				
Board-designated endowment	\$ 1,781,744	\$ -	\$ -	\$ 1,781,744
Donor-designated endowment	-	-	119,535	119,535
	<u>\$ 1,781,744</u>	<u>\$ -</u>	<u>\$ 119,535</u>	<u>\$ 1,901,279</u>
September 30, 2013				
Board-designated endowment	\$ 1,401,073	\$ -	\$ -	\$ 1,401,073
Donor-designated endowment	-	-	74,535	74,535
	<u>\$ 1,401,073</u>	<u>\$ -</u>	<u>\$ 74,535</u>	<u>\$ 1,475,608</u>

The following were the changes in the endowment net assets for the years ended September 30, 2014 and 2013:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance as of September 30, 2012	\$ 881,032	\$ -	\$ 64,535	\$ 945,567
Contributions	408,999	-	10,000	418,999
Investment gain	111,042	-	-	111,042
Balance as of September 30, 2013	1,401,073	-	74,535	1,475,608
Contributions	279,483	-	45,000	324,483
Investment gain	101,188	1,738	-	102,926
Appropriated earnings	-	(1,738)	-	(1,738)
Balance as of September 30, 2014	<u>\$ 1,781,744</u>	<u>\$ -</u>	<u>\$ 119,535</u>	<u>\$ 1,901,279</u>

Board Designated Endowment Performance since Creation

The performance of the board designated endowment since it was created by the Board of Directors is as follows:

Amount initially established in board designated endowment	\$	250,000
Board designated contributions since creation		1,245,151
Investment income (losses), net, since creation		286,593
Balance as of September 30, 2014	\$	1,781,744

The board designated endowment is recorded at fair value. The investment income (losses) noted above include interest income, realized and unrealized gains and losses, and fees.

The Organization has a budget which provides for an improvement in working capital position. The improvement goal was set at 1% of revenues from ongoing operating revenues, which excludes revenues for land, building and equipment. For 2014, any actual improvement of the working capital position above the budgeted goal is to be invested in the Organization’s Board Directed Endowment Fund in the following fiscal year.

For fiscal year 2014, the improvement goal was set at \$75,038. As of September 30, 2014 and 2013, the working capital position was \$2,092,820 and \$1,892,355, which is actual improvement of \$200,465. The improvement above the budgeted goal of \$125,427 will be designated for investment in the board designated endowment in fiscal year 2015.

Return Objectives and Risk Parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to support the operations while seeking to maintain the purchasing power of the endowment assets. The long-term objective for the Endowment is to earn a total rate of return from investment assets which shall exceed demands placed on the portfolio to support the Organization’s spending policy plus the rate of inflation, as measured by the national Consumer Price Index. Actual returns in any given year may vary from this amount. To satisfy this long-term rate-of-return objective, the investment portfolio is structured on a total-return approach through which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). A significant portion of the funds are invested to seek growth of principal over time. Endowment assets include permanently restricted and unrestricted board designated funds. Only a majority vote of the Board of Directors would change the designation of these funds to be recorded in operating unrestricted net assets. The endowment assets are invested in a manner that is intended to produce results that exceed the price and yield positive results while assuming a low level of investment risk.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Organization relies on an investment allocation with investments in mutual funds and cash equivalents.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Organization’s policy is to maintain sufficient financial stability for the operations of the Organization. Interest and dividends net of investment expense are currently included in the endowments and until a decision is made regarding the use of those funds.

Note 6 - Retirement Plan

Substantially all employees of the Organization participate in a non-contributory defined contribution retirement plan. Contributions to the plan are based on a percentage of employee compensation and are paid as accrued. Retirement expense was \$163,667 and \$161,339 for the years ended September 30, 2014 and 2013.

Note 7 - Funds Held by Foundations

There were funds totaling approximately \$247,000 and \$226,000 held by various foundations at September 30, 2014 and 2013. These amounts are not included in the assets reported in the statement of financial position. These funds are managed by the foundations. The Organization receives the interest income from these funds on an annual basis.

Note 8 - Leases

The Organization leases office and tower space to various lessees under long term leases. Rental income totaled \$754,735 and \$811,828 for the years ended September 30, 2014 and 2013.

Future minimum lease payments receivable on these leases are as follows:

Years Ending September 30,	Amount
2015	\$ 567,919
2016	449,322
2017	399,459
2018	251,892
2019	96,644
Total minimum payments receivable	\$ 1,765,236

Note 9 - Fair Value of Assets

Certain assets are reported at fair value in the financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization can access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. In these situations, the Organization develops inputs using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to the Organization's assessment of the quality, risk or liquidity profile of the asset or liability.

A significant portion of the Organization's investment assets are classified within Level 1 because they are comprised of equity securities and open-end mutual funds with readily determinable fair values based on daily redemption values. The Level 2 investments are comprised of corporate debt obligations because the fair values are based on similar assets in active markets. The other assets are classified as Level 3 because the Organization values them based on unobservable (non-market) information received.

Assets measured at fair value on a recurring basis at September 30, 2014 and 2013 are as follows:

	2014	2013
Corporate debt obligations	\$ 330,830	\$ 294,166
Equity securities	601,581	372,974
Stock mutual funds	643,644	382,509
Alternative	113,096	78,741
Other investments	33,168	32,192
	\$ 1,722,319	\$ 1,160,582

The related fair values of these assets are determined as follows:

	Total	Quoted Prices In Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
September 30, 2014				
Corporate debt obligations				
Corporate	\$ 273,104	\$ -	\$ 273,104	\$ -
Foreign	57,726	-	57,726	-
Equity securities				
Consumer discretionary	63,161	63,161	-	-
Consumer staple	44,138	44,138	-	-
Energy	54,882	54,882	-	-
Financial	69,468	69,468	-	-
Healthcare	72,949	72,949	-	-
Industrial	101,582	101,582	-	-
Information technology	122,472	122,472	-	-
Materials	36,545	36,545	-	-
Telecommunication service	18,320	18,320	-	-
Utilities	18,064	18,064	-	-
Stock Mutual Funds				
Mid-cap growth	47,868	47,868	-	-
Large value	113,175	113,175	-	-
Small growth	146,903	146,903	-	-
Foreign large blend	181,408	181,408	-	-
Diversified emerging marke	86,514	86,514	-	-
Foreign small/mid growth	39,728	39,728	-	-
Large blend	16,387	16,387	-	-
Financial	11,661	11,661	-	-
Multialternative	113,096	113,096	-	-
Other investments	33,168	-	-	33,168
	<u>\$ 1,722,319</u>	<u>\$ 1,358,321</u>	<u>\$ 330,830</u>	<u>\$ 33,168</u>

Prairie Public Broadcasting, Inc.
Notes to Financial Statements
September 30, 2014 and 2013

	Total	Quoted Prices In Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
September 30, 2013				
Corporate debt obligations				
Corporate	\$ 244,751	\$ -	\$ 244,751	\$ -
Foreign	49,415	-	49,415	-
Equity securities				
Consumer discretionary	38,972	38,972	-	-
Consumer staple	41,042	41,042	-	-
Energy	30,009	30,009	-	-
Financial	40,568	40,568	-	-
Healthcare	35,351	35,351	-	-
Industrial	57,540	57,540	-	-
Information technology	82,431	82,431	-	-
Materials	23,039	23,039	-	-
Telecommunication service	12,102	12,102	-	-
Utilities	11,920	11,920	-	-
Stock mutual funds				
Mid-cap growth	27,082	27,082	-	-
Large value	485	485	-	-
Small growth	88,072	88,072	-	-
Foreign large blend	169,935	169,935	-	-
Diversified emerging marke	45,638	45,638	-	-
Foreign large growth	40,762	40,762	-	-
Large blend	2,977	2,977	-	-
Financial	7,558	7,558	-	-
Multialternative	78,741	78,741	-	-
Other investments	32,192	-	-	32,192
	<u>\$ 1,160,582</u>	<u>\$ 834,224</u>	<u>\$ 294,166</u>	<u>\$ 32,192</u>

Following is a reconciliation of activity for the assets measured at fair value based upon significant unobservable (non-market) information:

	Other Investments
Balance, September 30, 2012	\$ 31,670
Investment income (loss), net of expenses	1,631
Withdrawals	(1,109)
Balance, September 30, 2013	32,192
Investment income (loss), net of expenses	1,609
Withdrawals	(633)
Balance, September 30, 2014	\$ 33,168

Assets measured at fair value on a nonrecurring basis include the following at September 30, 2014 and 2013:

	2014	2013
Contributions receivable	\$ 1,559,949	\$ 1,508,670

Contributions receivable are reported at fair value at the date the promise is received, which is then treated as cost.

Note 10 - Commitments and Contingencies

Operating Leases

The Organization leases a portion of its equipment under operating leases expiring during the next five years. The Organization also leases land on which to place its broadcast towers. These leases are also operating leases and expire over the next twenty years. Lastly, the Organization holds gaming leases which are short-term leases as they are renewed annually. The total rental expense for all operating leases was \$227,200 and \$223,970 for the years ended September 30, 2014 and 2013.

The following is a schedule of future minimum rental payments required under all long-term operating leases as of September 30, 2014.

<u>Years Ending September 30,</u>	<u>Amount</u>
2015	\$ 54,187
2016	49,330
2017	49,330
2018	50,330
2019	38,297
Thereafter	<u>101,830</u>
Total	<u>\$ 343,304</u>

Self-Insurance

The Organization is self-insured with respect to certain employee medical costs. Terms of the plan include a stop-loss provision which limits the Organization's liability to \$35,000 per individual or approximately \$550,000 in aggregate annually. The accrued liability for the estimated amount of claims incurred but not reported as of September 30, 2014 and 2013 is approximately \$27,000. The claims paid for the years ended September 30, 2014 and 2013 was \$402,160 and \$434,570.

Note 11 - Subsequent Events

The Organization has evaluated subsequent events through January 15, 2015, the date which the financial statements were available to be issued.



Supplementary Information
September 30, 2014 and 2013

Prairie Public Broadcasting, Inc.

Prairie Public Broadcasting, Inc.
Supporting Schedule to the Statement of Activities
Year Ended September 30, 2014

	Budget (unaudited)	Actual
Television		
Support and Revenue	\$ 5,421,462	\$ 6,127,190
Expenses		
Programming and production	2,959,179	2,761,316
Engineering	2,845,687	2,601,338
Development	387,800	434,298
Total expenses	6,192,666	5,796,952
Excess of Support and Revenue over (under) Expenses	\$ (771,204)	\$ 330,238
Radio		
Support and Revenue	\$ 1,250,707	\$ 1,340,552
Expenses		
Programming and production	1,063,419	1,115,143
Engineering	431,400	473,969
Development	83,200	80,839
Total expenses	1,578,019	1,669,951
Excess of Expenses over Support and Revenue	\$ (327,312)	\$ (329,399)
Corporate		
Support and Revenue	\$ 1,513,992	\$ 1,837,174
Expenses		
General and administrative	1,392,758	1,380,464
Excess of Support and Revenue over Expenses	\$ 121,234	\$ 456,710
Total		
Support and Revenue	\$ 8,186,161	\$ 9,304,916
Expenses		
Excess of Support and Revenue over (under) Expenses	\$ (977,282)	\$ 457,549

Prairie Public Broadcasting, Inc.
Schedule of Support and Revenue
Year Ended September 30, 2014

	Budget (unaudited)	Actual
Television		
Membership	\$ 1,479,000	\$ 1,559,949
CPB income	1,154,282	1,229,176
ND state support	687,684	687,684
MN state support	580,030	578,083
Underwriting	734,700	507,891
NCCST	267,500	267,504
USDA capital grants	-	31,120
Educational fees	54,100	38,726
MN capital grant	-	10,872
Program products	20,000	21,349
Foundation income	18,000	9,729
CPB interconnection grant	17,295	13,114
Broadcast income	10,000	7,485
Grant income	8,000	62,436
Special gifts	3,000	205,754
Memorials	-	1,045
Special events	-	23,548
MN DTV grant revenue	10,871	-
WARN grant	400,000	936,804
Canadian exchange	(23,000)	(65,079)
	<u>5,421,462</u>	<u>6,127,190</u>
Total television		
Radio		
Membership	449,000	469,250
Underwriting	233,400	220,896
CPB income	174,258	197,306
ND state support	280,908	280,884
University support	62,500	62,512
Grant income	46,000	97,898
Rental income	4,441	4,530
Miscellaneous	200	487
Special events	-	6,789
	<u>1,250,707</u>	<u>1,340,552</u>
Total radio		

Prairie Public Broadcasting, Inc.
 Schedule of Support and Revenue
 Year Ended September 30, 2014

	Budget (unaudited)	Actual
Corporate		
Gaming net income	\$ 804,596	\$ 676,483
Tower rent	525,615	594,394
Contracted services	123,281	156,706
Capital patronage	25,000	52,300
Oil well royalties	21,000	18,689
Interest income	15,000	31,275
Other revenues	3,000	159,713
Realized and unrealized gains and losses	-	86,672
Endowment contribution	-	45,000
In kind	-	6,465
Gain on sale of equipment	-	12,220
Vending loss	(3,500)	(2,743)
	1,513,992	1,837,174
Total corporate		
	1,513,992	1,837,174
Total Support and Revenue	\$ 8,186,161	\$ 9,304,916

Prairie Public Broadcasting, Inc.
Schedule of Programming and Production Expenses – Television
Year Ended September 30, 2014

	Budget (unaudited)	Actual
Salary - Full-time	\$ 1,121,600	\$ 1,045,623
Program rights	636,659	639,458
Benefits	282,200	276,451
Production	255,500	174,478
Contracted services	255,150	161,978
Miscellaneous	92,040	97,197
FICA tax	85,100	79,610
Program information	61,500	61,921
Postage	58,450	60,626
Travel	45,640	40,554
Supplies	13,600	49,323
Dues and subscriptions	13,300	12,116
Training	12,700	7,148
Equipment repair	9,100	9,360
Telephone	5,340	4,295
Printing	4,000	19,465
Equipment	2,500	239
Set material	2,500	1,847
Salary - Part-time	2,300	12,677
Nielsen survey	-	2,829
Video tape	-	4,121
	<u> </u>	<u> </u>
Total programming and production expenses - television	<u><u>\$ 2,959,179</u></u>	<u><u>\$ 2,761,316</u></u>

Prairie Public Broadcasting, Inc.
Schedule of Engineering Expenses – Television
Year Ended September 30, 2014

	Budget (unaudited)	Actual
Depreciation	\$ 1,700,000	\$ 1,534,965
Salary - Full-time	521,600	528,853
Power costs	209,800	215,972
Benefits	149,200	133,241
Transmitter repairs and maintenance	79,030	23,553
Contracted facilities and services	45,407	49,448
Video equipment repairs and maintenance	42,500	38,618
FICA tax	38,800	38,236
Travel	28,850	22,689
Salary - Part-time	15,200	9,355
Vehicle repair	5,200	4,310
Training	4,000	2,070
Telephone	3,600	3,797
Equipment	1,500	(3,550)
Miscellaneous	1,000	(219)
	\$ 2,845,687	\$ 2,601,338
Total engineering expenses - television	\$ 2,845,687	\$ 2,601,338

Prairie Public Broadcasting, Inc.
Schedule of Programming and Production Expenses – Radio
Year Ended September 30, 2014

	Budget (unaudited)	Actual
Salary - Full-time	\$ 514,300	\$ 528,976
Program acquisition	240,205	272,017
Benefits	120,800	96,518
Salary - Part-time	49,200	45,447
FICA tax	40,300	39,501
Program production	25,500	59,749
Contracted services	24,900	25,057
Travel	15,500	13,251
Training	8,124	9,802
Satellite interconnection fees	8,000	8,380
Miscellaneous	7,520	5,068
Postage	5,050	3,467
Telephone	3,020	2,408
Supplies	1,000	1,335
Repairs and maintenance equipment	-	4,167
	-	4,167
Total programming and production expenses - radio	\$ 1,063,419	\$ 1,115,143

Prairie Public Broadcasting, Inc.
Schedule of Engineering Expenses – Radio
Year Ended September 30, 2014

	<u>Budget</u> (unaudited)	<u>Actual</u>
Power cost	\$ 170,200	\$ 169,689
Depreciation	130,000	175,472
Salary - Full-time	95,400	95,265
Benefits	11,900	10,667
Repairs and maintenance	8,500	5,848
FICA tax	7,400	7,075
Audio repairs and maintenance	4,500	2,499
Equipment	<u>3,500</u>	<u>7,454</u>
Total engineering expenses - radio	<u>\$ 431,400</u>	<u>\$ 473,969</u>

Prairie Public Broadcasting, Inc.
Schedule of General and Administrative Expenses – Corporate
Year Ended September 30, 2014

	Budget (unaudited)	Actual
Salary - Full-time	\$ 558,700	\$ 554,423
Insurance	158,000	154,326
Utilities	92,000	99,389
Depreciation	87,000	84,375
Bank charges	73,000	77,534
Benefits	72,800	58,147
Professional fees	62,100	83,567
Board of Directors	43,000	38,905
FICA tax	40,600	34,757
Travel	28,200	22,680
Dues and subscriptions	26,700	31,852
Repairs and maintenance - building	23,000	22,278
Computer	22,000	22,415
Cost of contracted services	21,008	20,081
Office supplies	15,700	14,929
Cleaning and custodial	15,500	14,810
Telephone	15,400	14,836
Postage and freight	9,250	8,520
Miscellaneous	9,100	4,255
Unemployment tax	9,000	94
Real estate tax	7,700	8,115
Promotion	3,000	416
Worker's compensation	3,000	5,265
Training	2,500	250
Hiring	2,500	11,988
Equipment	1,000	3,088
Rent and lease	500	1,733
Finance charges	200	39
Repairs and maintenance - vehicles and equipment	(9,700)	(12,665)
Printing	-	62
	<u> </u>	<u> </u>
Total general and administrative expenses - corporate	<u>\$ 1,392,758</u>	<u>\$ 1,380,464</u>

Prairie Public Broadcasting, Inc.
Schedule of Development Expenses – Television
Year Ended September 30, 2014

	Budget (unaudited)	Actual
New member acquisition	\$ 188,200	\$ 200,119
Premiums	69,000	95,823
Membership	63,300	58,021
Bad debts	40,100	48,883
Postage	17,800	23,804
Promotion	4,450	4,721
Travel	3,000	1,734
Customer service	1,050	534
Training	900	659
Total development expenses - television	\$ 387,800	\$ 434,298

Prairie Public Broadcasting, Inc.
Schedule of Development Expenses – Radio
Year Ended September 30, 2014

	<u>Budget</u> (unaudited)	<u>Actual</u>
New member acquisition	\$ 42,700	\$ 36,302
Membership	31,000	26,309
Bad debt expense	<u>9,500</u>	<u>18,228</u>
Total development expenses - radio	<u>\$ 83,200</u>	<u>\$ 80,839</u>

Prairie Public Broadcasting, Inc.
Schedule of Gaming Income and Direct Expenses
Year Ended September 30, 2014

	Budget (unaudited)	Actual
Gaming Income		
Pull tabs	\$ 5,206,560	\$ 4,776,358
Bingo	4,513,080	4,293,366
Blackjack	662,640	590,158
Promotional items	180,000	161,985
Vending	46,800	46,254
Other	59,280	31,921
Total gaming income	10,668,360	9,900,042
Cost of Gaming Income		
Pull tab prizes	4,082,400	3,750,050
Bingo prizes	3,688,200	3,686,355
Total cost of gaming income	7,770,600	7,436,405
Adjusted Gross Proceeds	2,897,760	2,463,637
Direct Expenses	2,093,164	1,787,154
Net Gaming Income	\$ 804,596	\$ 676,483
Direct Expenses		
Salaries	\$ 870,600	\$ 802,546
State gaming tax	289,462	218,869
Benefits	181,680	91,971
Rent and leases	174,780	169,503
FICA	151,080	136,928
Gaming supplies	111,300	101,370
Depreciation	58,110	52,262
Promotion	34,200	29,144
Utilities	33,000	33,129
Real estate taxes	27,960	19,698
Vending	25,200	27,469
Contracted services	24,000	22,332
Supplies	19,500	17,333
ND employment taxes	13,107	-
Insurance	12,480	13,250
Miscellaneous	12,265	6,702
Resale supplies	10,800	8,293
Travel	10,680	12,928
Repair and maintenance - equipment	7,560	5,922
Bad debt	6,800	3,876
Repair and maintenance - building	5,400	1,130
Postage	4,020	3,415
Small equipment	3,360	2,738
Telephone	3,180	2,770
Accounting, audit, legal, and bank fees	2,640	2,207
Workers' compensation	-	1,369
Total direct expenses	\$ 2,093,164	\$ 1,787,154



**Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed in Accordance with
*Government Auditing Standards***

To the Board of Directors
Prairie Public Broadcasting, Inc.
Fargo, North Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Prairie Public Broadcasting, Inc. (Organization) which comprise the statement of financial position as of September 30, 2014, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 15, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization’s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not yet been identified.

Compliance and Other Matters

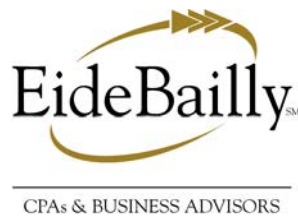
As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Fargo, North Dakota
January 15, 2015



Independent Auditor’s Report on Compliance for Its Major Federal Program and Report on Internal Control Over Compliance and Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

To the Board of Directors
Prairie Public Broadcasting, Inc.
Fargo, North Dakota

Report on Compliance for Its Major Federal Program

We have audited Prairie Public Broadcasting, Inc.’s (Organization) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the Organization’s major federal program for the year ended September 30, 2014. The Organization’s major federal program is identified in the summary of auditor’s results section of the accompanying Schedule of Findings and Questioned Costs.

Management’s Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor’s Responsibility

Our responsibility is to express an opinion on the compliance for the Organization’s major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization’s compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major Federal program for the year ended September 30, 2014.

Report on Internal Control over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of Prairie Public Broadcasting, Inc., which comprise the statements of financial position as of September 30, 2014 and 2013, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements. We issued our report thereon dated January 15, 2015, which contained unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in cursive script that reads "Erik Sully LLP". The signature is written in black ink and is positioned above the typed name and date.

Fargo, North Dakota
January 15, 2015

Prairie Public Broadcasting, Inc.
 Schedule of Expenditures of Federal Awards
 Year Ended September 30, 2014

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Expenditures
U.S. Department of Commerce Passed through Public Broadcasting Service (PBS) Special Recovery Projects	11.553	\$ 936,804
U.S. Department of Agriculture Public Television Station Digital Transition Grant Program	10.861	31,120
National Endowment for the Humanities Passed through ND Humanities Council, Inc.		
Dakota Datebook	45.129	8,333
Black Gold Boom	45.129	6,750
Subtotal CFDA 45.129		15,083
U.S. Department of Energy Passed through University of North Dakota Energy & Environmental Research Center Fossil Energy Research and Development	81.089	173,257
Total expenditures of federal awards		\$ 1,156,264

Note A – Basis of Presentation

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal grant activity of the Prairie Public Broadcasting, Inc. (Organization), and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. The Organization received federal awards both directly from federal agencies and indirectly through pass-through entities.

Note B – Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, Cost Principles for Non-profit Organizations, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Organization's summary of significant accounting policies is presented in Note 1 in the Organization's basic financial statements.

Section I – Summary of Auditor’s Results

FINANCIAL STATEMENTS

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	None Reported
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major program:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	None Reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133 §.510(a):	No

Identification of major programs:

<u>Name of Federal Program</u>	<u>CFDA Number</u>
Special Recovery Projects	11.553
Dollar threshold used to distinguish between type A and type B programs:	\$ 300,000
Auditee qualified as low-risk auditee?	No

Section II – Financial Statement Findings

None reported.

Section III – Federal Award Findings and Questioned Costs

None reported.

No findings reported in the prior year.