

**SAN MIGUEL EDUCATIONAL FUND
KOTO-FM**

FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

December 31, 2018 and 2017

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors

San Miguel Educational Fund
KOTO-FM
Telluride, Colorado

We have audited the accompanying financial statements of San Miguel Educational Fund KOTO-FM (a nonprofit organization), which comprise the statement of financial position as of December 31, 2018 and 2017, and the related statements of activities and cash flows for the year 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 audit. We conducted our audit 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 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 San Miguel Educational Fund KOTO-FM as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Blair and Associates, P.C.

Cedaredge, Colorado

March 25, 2019

**San Miguel Educational Fund
KOTO-FM
Statements of Financial Position
December 31, 2018 and 2017**

	2018	2017
ASSETS		
Current Assets:		
Cash and equivalents	\$ 105,379	\$ 97,267
Accounts receivable	957	2,512
Pledges receivable	26,455	23,160
Grants receivable	88,707	84,522
Merchandise inventory	714	588
Prepaid expenses	10,960	4,351
Total Current Assets	233,172	212,400
Land, Building and Equipment, net	469,130	495,527
TOTAL ASSETS	\$ 702,302	\$ 707,927
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 18,883	\$ 49,113
Accrued liabilities	836	2,023
Note payable	188,144	195,564
Total Current Liabilities	207,863	246,700
Net Assets		
Without donor restrictions	489,289	461,227
With donor restrictions	5,150	-
Total Net Assets	494,439	461,227
TOTAL LIABILITIES AND NET ASSETS	\$ 702,302	\$ 707,927

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

San Miguel Educational Fund
KOTO-FM
Statement of Activities
For the Years Ended December 31, 2018 and 2017

	2018			2017		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
Operating Activities:						
Contributions	\$ 173,356	\$ 5,150	\$ 178,506	\$ 167,283	\$ -	\$ 167,283
Grants	146,338	40,000	186,338	141,577	40,000	181,577
Donated services	87,452	-	87,452	91,229	-	91,229
Event proceeds, net	38,689	-	38,689	79,669	-	79,669
Rental income	9,061	-	9,061	9,761	-	9,761
Other income	1,581	-	1,581	9,709	-	9,709
Total revenue and support before releases						
Net assets released from restrictions:	40,000	(40,000)	-	40,000	(40,000)	-
Total revenue and support	496,477	5,150	501,627	539,228	-	539,228
Expenses						
Program services	401,185	-	401,185	435,800	-	435,800
General & administrative	31,046	-	31,046	30,308	-	30,308
Fundraising	36,202	-	36,202	43,308	-	43,308
Total expenses	468,433	-	468,433	509,416	-	509,416
Changes in net assets from operating activities	28,044	5,150	33,194	29,812	-	29,812
Nonoperating Activities:						
Investment income, net	18	-	18	16	-	16
Changes in net assets	28,062	5,150	33,212	29,828	-	29,828
Net assets, Beginning	461,227	-	461,227	431,399	-	431,399
Net assets, Ending	\$ 489,289	\$ 5,150	\$ 494,439	\$ 461,227	\$ -	\$ 461,227

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

San Miguel Educational Fund
KOTO-FM
Statements of Cash Flows
For the Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Change in net position	\$ 35,664	\$ 29,828
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation expense	27,772	29,560
Change in operating assets and liabilities		
(Increase) decrease in pledges receivable	(3,295)	(3,525)
(Increase) decrease in grants receivable	(4,185)	1,176
(Increase) decrease in merchandise inventory	(126)	1,517
(Increase) decrease in prepaid expenses	(6,609)	(409)
(Increase) decrease in other assets	1,555	(2,512)
Increase (decrease) in accounts payable	(30,230)	679
Increase (decrease) in accrued liabilities	(1,187)	(3,250)
Net cash provided by (used in) operating activities	<u>19,359</u>	<u>53,064</u>
Cash flows from investing activities		
Cash paid for property and equipment	(1,376)	(3,304)
Net cash provided by (used in) investing activities	<u>(1,376)</u>	<u>(3,304)</u>
Cash flow from financing activities		
Loan proceeds	(7,420)	(7,058)
Net cash provided (used) by financing activities	<u>(7,420)</u>	<u>(7,058)</u>
Net increase (decrease) in cash and cash equivalents	10,563	42,702
Cash and cash equivalents, beginning of year	97,267	54,565
Cash and cash equivalents, end of year	<u>\$ 107,830</u>	<u>\$ 97,267</u>
<u>Supplemental disclosure</u>		
Interest paid	\$ 10,911	\$ 11,273

The accompanying notes are an integral part of this statement.

**SAN MIGUEL EDUCATIONAL FUND
KOTO-FM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION AND PURPOSE

The San Miguel Educational Fund – KOTO FM (the Fund), located in Telluride, Colorado was incorporated on May 2, 1973 as a Colorado nonprofit corporation. The Fund provides high quality commercial free, non-underwritten community radio for people in Telluride, Colorado and surrounding areas.

BASIS OF ACCOUNTING

The financial statements of the Organization have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America. The significant accounting policies are described below to enhance the usefulness of the financial statements to the reader.

FINANCIAL STATEMENT PRESENTATION

The financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958 dated August 2016, and the provisions of the American Institute of Certified Public Accountants (AICPA) “Audit and Accounting Guide for Not-for-Profit Organizations” (the “Guide”). (ASC) 958-205 was effective January 1, 2018.

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

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. The Organization’s board may designate assets without restrictions for specific operational purposes from time to time.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Non-Profit Organization or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include all cash held in deposits and temporary investments with an original maturity of three months or less.

PLEDGES RECEIVABLE AND GRANTS RECEIVABLE

Pledges and grants receivable are recognized as contribution or grant revenue in the period the pledge or grant is received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Pledges and grants are recorded at net realizable value if expected to be collected in one year and at present value if expected to be collected in more than one year. Conditional pledges and grants are recognized when the conditions on which they depend are substantially met. The Fund provides for probable uncollectible pledges and grants through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual pledges. Pledges or grants that are still outstanding after management has used reasonable collections efforts are written off through a charge to the valuation allowance and a credit to pledges or grants receivable. As of December 31, 2018 and 2017 no allowance has been recorded.

Pledges and grants due in the next year are recorded at their net realizable value.

**SAN MIGUEL EDUCATIONAL FUND
KOTO-FM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FAIR VALUE MEASUREMENTS

The Fund is subject to the provisions of *Fair Value Measurements and Disclosures* Topic of FASB ASC. This standard requires use of a fair value hierarchy that provides the inputs to valuation techniques used to measure fair value into three levels: quoted market price in active markets for identical assets and liabilities (Level 1); inputs other than quoted market prices that are observable for the asset or liability, either directly or indirectly (Level 2); and unobservable inputs for the asset or liability (Level 3).

MERCHANDISE INVENTORY

Merchandise inventory consists of T-shirts and miscellaneous memorabilia valued at cost.

LAND, BUILDINGS AND EQUIPMENT

The Fund capitalizes all additions to property and equipment with a useful life greater than one year. Donations of property and equipment are recorded as support at their estimated value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as with donor restrictions. Absent donor stipulations regarding how long those donated assets must be maintained, the Fund reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Fund reclassifies with donor restrictions to net assets to without donor restrictions to net assets at that time. Property and equipment are depreciated over their estimated useful lives of 5 to 39 years primarily using the straight-line method.

ACCRUED VACATION

Employees receive accrued leave at the beginning of each calendar year based on the time employed. All unused leave expires at the end of the calendar year and no leave is accrued or carried forward to the next year.

CONTRIBUTIONS

Unconditional contributions are recognized when pledged and recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Gifts of cash and other assets are reported with donor restricted support if they are received with donor stipulations that limit the use of the donated assets. When a restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as net assets without donor restriction support. Donations of property and equipment are recorded as support at their estimated fair value at the date of donation.

**SAN MIGUEL EDUCATIONAL FUND
KOTO-FM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DONATED SERVICES

The Fund receives a significant amount of donated services from unpaid volunteers who assist in fundraising, program activities and special events. Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Fund if not provided by donation. Services meeting the above criteria are recorded at their fair values in the period received. For the years ended December 31, 2018 and 2017, contributed services were valued at \$85,000 and \$91,229, respectively.

INCOME TAX STATUS

The Fund is exempt from income taxes under the provisions of Section 501(c) (3) of the Internal Revenue Code and is classified as other than a private foundation. Contributions to the Fund are tax deductible as permitted under the Code.

FASB Topic 740-10, Accounting for Uncertainty in Income Taxes, prescribes when to recognize and how to measure the financial statement effects of income tax positions taken or expected to be taken on its income tax returns. These rules require management to evaluate the likelihood that, upon examination by relevant taxing jurisdictions, those income tax positions would be sustained. Based on that evaluation, the Fund only recognizes the maximum benefit of each income tax position that is more than 50% likely of being sustained. To the extent that all or a portion of the benefits of an income tax position are not recognized, a liability would be recognized for the unrecognized benefits, along with any interest and penalties that would result from disallowance of the position. Should any such penalties and interest be incurred, they would be recognized as operating expenses. The Fund had no material unrecognized tax benefits for the years ended December 31, 2018 and 2017. As a result, no interest or penalties were accrued for unrecognized tax benefits during the year. As of December 31, 2018 the tax years for 2014 through 2016 remain subject to examination by taxing authorities.

FUNCTIONAL ALLOCATION OF EXPENSES

The costs of producing the various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

ADVERTISING

The Fund expenses advertising costs as incurred. Total advertising expense for the years ended December 31, 2018 and 2017 was \$2,567 and \$3,204 respectively.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles includes the use of estimates that affect the financial statements. Accordingly, actual results could differ from those estimates.

**SAN MIGUEL EDUCATIONAL FUND
KOTO-FM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 2 - LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment at December 31, 2018 and 2017 consist of:

	2018	2017
Building	\$ 88,000	\$ 88,000
Building Improvements	170,415	170,415
Equipment	536,946	535,570
Land	237,505	237,505
	<u>1,032,866</u>	<u>1,031,490</u>
Less Accumulated Depreciation	(563,736)	(506,404)
Land, Buildings and Equipment, Net	<u>\$ 469,130</u>	<u>\$ 495,526</u>

NOTE 3 - NOTE PAYABLE

The Fund re-negotiated its note agreement with Alpine Bank on November 15, 2018. The renegotiated agreement extended the maturity date to November 1, 2028. The interest rate was changed to 5.625% and with monthly payments of principal and interest in the amount of \$1,561. A final payment of principal and interest is due November 1, 2028 when the note matures.

Principal payments due as of December 31, 2018 are as follows:

	Principal	Interest
2019	\$ 8,361	\$ 10,370
2020	8,844	9,857
2021	9,354	9,377
2022	9,894	8,837
2023	10,465	8,266
2024-2028	<u>141,226</u>	<u>31,506</u>
	<u>\$ 188,144</u>	<u>\$ 78,243</u>

NOTE 4 – EVENT PROCEEDS

Event proceeds at December 31, 2018:

	<u>Total</u>
Events Income	\$ 278,328
Cost of Sales	<u>(239,639)</u>
	<u>\$ 38,689</u>

Event proceeds at December 31, 2017:

	<u>Total</u>
Events Income	\$ 338,576
Cost of Sales	<u>(258,907)</u>
	<u>\$ 79,669</u>

**SAN MIGUEL EDUCATIONAL FUND
KOTO-FM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 5 - CONCENTRATION OF RISKS

CREDIT RISK

The Fund maintains cash deposits with major banks which from time to time may exceed federally insured limits. There were no uninsured deposits at December 31, 2018 and 2017.

ECONOMIC DEPENDENCY

The Fund operates from a single location and relies on its broadcasting assets to serve its coverage areas. The Fund's broadcasting assets (including transmission towers) are located in various leased properties that may not be easily replaced or substituted with different properties. If the Fund is required to change the locations of its broadcasting assets, it may need to settle with less than ideal locations or invest in additional broadcasting assets to maintain its coverage areas.

The Fund receives a substantial amount of its support from the Corporation for Public Broadcasting (CPB). If a significant reduction in this level of support were to occur, it may have an adverse effect on the Fund's programs and activities. CPB funds are subject to certain use and reporting requirements. Should CPB determine funds were not spent properly, the Fund may be required to return the funds. The Fund believes all CPB funds have been spent in accordance with CPB's restrictions.

The Fund receives a significant amount of services from National Public Radio (NPR). The Fund's programming would be negatively affected if it no longer had access to NPR programming.

NOTE 6 - FACILITY AND TOWER LICENSE AGREEMENT

On October 31, 2012 the Fund signed a Facility and Tower License Agreement. The Fund, along with TSG Ski & Golf, LLC (TSG) and the Sheriff's Office of San Miguel County (Sheriff's Office) have established interests of some nature in property at Coonskin Ridge, Telluride Colorado. The Agreement was executed with Exelis, Inc.

Exelis, Inc. desires to utilize the Coonskin Property and the existing antenna tower structure and equipment shelter on the Coonskin Property to support their effort in providing the air traffic control surveillance services under FAA contract. Under the Agreement the Fund, TSG and the Sheriff's Office license to Exelis, Inc. the rights to utilize certain portions of the premises and facilities on the Coonskin Property. The initial lease term is five two-year terms with the option to renew for three additional terms of five years.

The initial monthly license fee was \$1,250 payable on the first day of each month during the renewal term of this agreement only. Annual increases of 2.5% apply after the first anniversary of the commencement date and each one-year anniversary thereafter. Exelis, Inc. was permitted to use Coonskin Property rent free during the initial license term. The Fund's portion of the monthly license fee is 33.33%.

In addition to the monthly license fee, Exelis, Inc. shall pay the Fund a monthly utility fee reimbursement for electrical power consumed and for the use of electrical power from the emergency back-up generator on the premises. This will be due each and every month Exelis, Inc. uses the premises. The monthly utilities fee will increase at a rate of 2.5% on an annual basis beginning on the first full month after the first anniversary of the commencement date and each one-year anniversary thereafter.

In consideration for the use of the premises, Exelis, Inc. paid the Fund, TSG and the Sheriff's Office a one-time capital contribution of \$21,000. The Fund's portion of the capital contribution was 33.33%.

**SAN MIGUEL EDUCATIONAL FUND
KOTO-FM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 6 - FACILITY AND TOWER LICENSE AGREEMENT

Future minimum income under the agreement as of December 31, 2018 is as follows:

December 31, 2019	\$ 7,886
2020	8,083
2021	8,285
Future Years	<u>164,581</u>
Total	<u>\$188,835</u>

NOTE 7 - EMPLOYEE BENEFITS

The Fund has purchased tax sheltered mutual funds in the form of deferred compensation arrangements, administered by the Dreyfus Trust Co., for certain employees allowing the employees to exclude from income amounts contributed toward the purchase of mutual fund contracts. As of December 31, 2018 and 2017 the Fund had contributed \$600 and \$600 respectively to the mutual fund contract.

NOTE 8 – NEW ACCOUNTING PRONOUNCEMENTS

New Accounting Pronouncement: On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. Non-Profit Organization, Inc. has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

NOTE 9 - SUBSEQUENT EVENTS

Subsequent events were evaluated through March 25, 2019, the date on which the financial statements were available to be issued.