

**SAN MIGUEL EDUCATIONAL FUND  
KOTO-FM**

FINANCIAL STATEMENTS AND REPORT OF  
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

December 31, 2017 and 2016

## CONTENTS

	Page
<b>INDEPENDENT AUDITOR'S REPORT</b> .....	1
<b>BASIC FINANCIAL STATEMENTS</b>	
Statements of Financial Position .....	3
Statements of Activities .....	4
Statements of Cash Flows.....	5
Notes to Financial Statements.....	6

## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors of  
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 statements of financial position as of December 31, 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.

### **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, 2017 and 2016, 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 7, 2018

**San Miguel Educational Fund  
KOTO-FM  
Statements of Financial Position  
December 31, 2017 and 2016**

	2017	2016
<b>ASSETS</b>		
Cash and equivalents	\$ 97,267	\$ 54,565
Accounts receivable	2,512	-
Pledges receivable	23,160	19,635
Grants receivable	84,522	85,698
Merchandise inventory	588	2,105
Prepaid expenses	4,351	3,942
Land, Building and Equipment, net	495,527	521,783
<b>TOTAL ASSETS</b>	<b>\$ 707,927</b>	<b>\$ 687,728</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable	\$ 41,903	\$ 47,334
Accrued liabilities	2,023	5,273
Deferred revenues	-	1,100
Note payable	195,564	202,622
<b>TOTAL LIABILITIES</b>	<b>239,490</b>	<b>256,329</b>
<b>NET ASSETS</b>		
Unrestricted, Undesignated	468,437	431,399
Temporarily restricted	-	-
<b>TOTAL NET ASSETS</b>	<b>468,437</b>	<b>431,399</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 707,927</b>	<b>\$ 687,728</b>

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, 2017 and 2016

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>REVENUES, GAINS AND OTHER SUPPORT</b>						
Contributions	\$ 167,283	\$ -	\$ 167,283	\$ 141,953	\$ -	\$ 141,953
Grants	141,577	40,000	181,577	140,447	25,000	165,447
Donated services	91,229	-	91,229	86,800	-	86,800
Event proceeds, net	79,669	-	79,669	83,835	-	83,835
Rental income	9,761	-	9,761	8,074	-	8,074
Investment income, net	16	-	16	13	-	13
Other income	9,709	-	9,709	1,807	-	1,807
Net position released from restrictions:						
Satisfaction of program restrictions	40,000	(40,000)	-	25,000	(25,000)	-
<b>TOTAL SUPPORT AND REVENUES</b>	<b>539,244</b>	<b>-</b>	<b>539,244</b>	<b>487,929</b>	<b>-</b>	<b>487,929</b>
<b>EXPENSES</b>						
Program services	428,590	-	428,590	393,454	-	393,454
General & administrative	30,308	-	30,308	29,183	-	29,183
Fundraising	43,308	-	43,308	53,043	-	53,043
<b>TOTAL EXPENSES</b>	<b>502,206</b>	<b>-</b>	<b>502,206</b>	<b>475,680</b>	<b>-</b>	<b>475,680</b>
<b>CHANGES IN NET ASSETS</b>	<b>37,038</b>	<b>-</b>	<b>37,038</b>	<b>12,249</b>	<b>-</b>	<b>12,249</b>
<b>NET ASSETS, Beginning</b>	<b>431,399</b>	<b>-</b>	<b>431,399</b>	<b>419,150</b>	<b>-</b>	<b>419,150</b>
<b>NET ASSETS, Ending</b>	<b>\$ 468,437</b>	<b>\$ -</b>	<b>\$ 468,437</b>	<b>\$ 431,399</b>	<b>\$ -</b>	<b>\$ 431,399</b>

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, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Change in net position	\$ 37,038	\$ 12,249
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation expense	29,560	28,827
Change in operating assets and liabilities		
(Increase) decrease in pledges receivable	(3,525)	(10,961)
(Increase) decrease in grants receivable	1,176	(85,698)
(Increase) decrease in merchandise inventory	1,517	(510)
(Increase) decrease in prepaid expenses	(409)	(53)
(Increase) decrease in other assets	(2,512)	-
Increase (decrease) in accounts payable	(6,531)	25,264
Increase (decrease) in accrued liabilities	(3,250)	2,699
Net cash provided by (used in) operating activities	<u>53,064</u>	<u>(28,183)</u>
Cash flows from investing activities		
Cash paid for property and equipment	(3,304)	(8,466)
Net cash provided by (used in ) investing activities	<u>(3,304)</u>	<u>(8,466)</u>
Cash flow from financing activities		
Loan proceeds	(7,058)	(6,623)
Net cash provided (used) by financing activities	<u>(7,058)</u>	<u>(6,623)</u>
Net increase (decrease) in cash and cash equivalents	42,702	(43,272)
Cash and cash equivalents, beginning of year	54,565	97,837
Cash and cash equivalents, end of year	<u>\$ 97,267</u>	<u>\$ 54,565</u>
<u>Supplemental disclosure</u>		
Interest paid	\$ 11,273	\$ 11,708

**The accompanying notes are an integral part of this statement.**

**SAN MIGUEL EDUCATIONAL FUND  
KOTO-FM  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

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**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 Fund have been prepared on the accrual basis. 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 FASB 958-205, Presentation of Financial Statements for Not-for-Profit Organizations. Under those provisions, net assets and revenues, gains, and losses are classified based on the FASB 958-205, the Fund is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

**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, 2017 and 2016 no allowance has been recorded.

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

**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).

**SAN MIGUEL EDUCATIONAL FUND  
KOTO-FM  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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 temporarily restricted support. 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 temporarily restricted net assets to unrestricted 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**

Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a 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.

**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, 2017 and 2016, contributed services were valued at \$91,229 and \$86,800, 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.

**SAN MIGUEL EDUCATIONAL FUND  
KOTO-FM  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**INCOME TAX STATUS (CONTINUED)**

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, 2017 and 2016. As a result, no interest or penalties were accrued for unrecognized tax benefits during the year. As of December 31, 2017 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, 2017 and 2016 was \$3,204 and \$1,616 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.

**NOTE 2 - LAND, BUILDINGS AND EQUIPMENT**

Land, buildings and equipment at December 31, 2017 and 2016 consist of:

	2017	2016
Building	\$ 88,000	\$ 88,000
Building Improvements	170,415	170,415
Equipment	535,570	532,267
Land	237,505	237,505
	<u>1,031,490</u>	<u>1,028,187</u>
Less Accumulated Depreciation	(535,964)	(506,404)
Land, Buildings and Equipment, Net	<u>\$ 495,526</u>	<u>\$ 521,783</u>

**SAN MIGUEL EDUCATIONAL FUND  
KOTO-FM  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

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**NOTE 3 - NOTE PAYABLE**

The Fund re-negotiated its note agreement with Alpine Bank when it matured on March 1, 2014. The renegotiated agreement extended the maturity date to March 1, 2019. The interest rate was changed to 5.625% and with monthly payments of principal and interest in the amount of \$1,528. A final payment of principal and interest is due March 1, 2019 when the note matures.

Principal payments due as of December 31, 2017 are as follows:

December 31, 2018	\$ 7,563
2019	<u>188,001</u>
	<u>\$ 195,564</u>

**NOTE 4 – EVENT PROCEEDS**

Event proceeds at December 31, 2017:

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

Event proceeds at December 31, 2016:

	<u><b>Total</b></u>
Events Income	\$ 353,512
Cost of Sales	<u>(269,677)</u>
	<u>\$ 83,835</u>

**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, 2017 and 2016.

**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.

**SAN MIGUEL EDUCATIONAL FUND  
KOTO-FM  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

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**NOTE 5 - CONCENTRATION OF RISKS (CONTINUED)**

**ECONOMIC DEPENDENCY (CONTINUED)**

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%.

Future minimum income under the agreement as of December 31, 2017 is as follows:

December 31, 2018	\$ 7,694
2019	7,886
2020	8,083
2021	8,285
Future Years	<u>164,581</u>
Total	<u>\$196,529</u>

**SAN MIGUEL EDUCATIONAL FUND  
KOTO-FM  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

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**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, 2017 and 2016 the Fund had contributed \$600 and \$600 respectively to the mutual fund contract.

**NOTE 8 - SUBSEQUENT EVENTS**

Subsequent events were evaluated through March 7, 2018, the date on which the financial statements were available to be issued.