SAN MIGUEL EDUCATIONAL FUND
KOTO -FM

FINANCIAL STATEMENTS

December 31, 2013 and 2012

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TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
San Miguel Educational Fund
KOTO-FM
Telluride, Colorado

We have audited the accompanying statements of San Miguel Education Fund KOTO-FM (a nonprofit organization), which comprise the statements of financial position as of December 31, 2013 and 2012, 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 of 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, 2013 and 2012, and the changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Reese Henry & Company, Inc.

Certified Public Accountants
Aspen, Colorado
March 12, 2014

SAN MIGUEL EDUCATIONAL FUND
KOTO-FM

STATEMENTS OF FINANCIAL POSITION
December 31, 2013 and 2012

	2013	2012
ASSETS		
Cash and Cash Equivalents	$ 81,850	$ 64,197
Accounts Receivable	1,725	-
Pledges Receivable, Net	13,992	21,447
Employee Advance	590	-
Merchandise Inventory	5,305	8,838
Prepaid Expenses	4,485	6,337
Land, Buildings and Equipment, Net	596,263	586,827
Intangible Asset, Net	946	1,571
Other Assets	130	-
TOTAL ASSETS	**$ 705,286**	**$ 689,217**
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable	$ 41,097	$ 17,529
Accrued Liabilities	1,945	5,703
Note Payable	222,002	225,146
TOTAL LIABILITIES	**265,044**	**248,378**
NET ASSETS		
Unrestricted, Undesignated	418,242	440,352
Temporarily Restricted	22,000	487
TOTAL NET ASSETS	**440,242**	**440,839**
TOTAL LIABILITIES AND NET ASSETS	**$ 705,286**	**$ 689,217**

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

SAN MIGUEL EDUCATIONAL FUND
KOTO-FM

STATEMENTS OF ACTIVITIES
For the Year Ended December 31, 2013 and 2012

	2013			2012		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUES, GAINS AND OTHER SUPPORT						
Contributions	$ 170,160	$ 22,000	$ 192,160	$ 131,913	$ -	$ 131,913
Grants	115,404	24,017	139,421	155,672	28,115	183,787
Donated Services	98,800	-	98,800	85,000	-	85,000
Sales, Net	81,693	-	81,693	148,556	-	148,556
Rental Income	14,378	-	14,378	-	-	-
Invesment Income, Net	6	-	6	6	-	6
Net Assets Released from Restrictions:						
Satisfaction of Program Restrictions	24,504	(24,504)	-	28,115	(28,115)	-
TOTAL SUPPORT AND REVENUES	**504,945**	**21,513**	**526,458**	**549,262**	**-**	**549,262**
EXPENSES						
Program Services	383,897	-	383,897	355,016	-	355,016
General & Administrative	48,796	-	48,796	35,386	-	35,386
Fundraising	94,362	-	94,362	100,855	-	100,855
TOTAL EXPENSES	**527,055**	**-**	**527,055**	**491,257**	**-**	**491,257**
CHANGE IN NET ASSETS	**(22,110)**	**21,513**	**(597)**	**58,005**	**-**	**58,005**
NET ASSETS, Beginning	**440,352**	**487**	**440,839**	**382,347**	**487**	**382,834**
NET ASSETS, Ending	**$ 418,242**	**$ 22,000**	**$ 440,242**	**$ 440,352**	**$ 487**	**$ 440,839**

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

SAN MIGUEL EDUCATIONAL FUND
KOTO-FM

STATEMENTS OF CASH FLOWS
For the Year Ended December 31, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ (597)	$ 58,005
Adjustments to Reconcile Change in Net Assets to Bet Cash		
Provided by (Used By) Operating Activities:		
Depreciation Expense	27,587	27,735
Amortization Expense	625	625
Contributed Construction Services	(13,800)	
(Increase) Decrease in Accounts Receivable	(1,725)	-
(Increase) Decrease in Pledges Receivable	7,455	(10,202)
(Increase) Decrease in Grants Receivable	-	44,956
(Increase) Decrease in Employee Receivables	(590)	845
(Increase) Decrease in Merchandise Inventory	3,533	(4,462)
(Increase) Decrease in Prepaid Expenses	1,852	2,852
(Increase) Decrease in Other Assets	(130)	-
Increase (Decrease) in Accounts Payable	23,568	(44,673)
Increase (Decrease) in Accrued Liabilities	(3,758)	(631)
NET CASH PROVIDED BY OPERATING ACTIVITIES	**44,020**	**75,050**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Equipment	(23,223)	(9,139)
NET CASH USED IN INVESTING ACTIVITIES	**(23,223)**	**(9,139)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Line of Credit Activity, Net		(4,409)
Payments on Loan	(3,144)	(5,495)
NET CASH USED IN FINANCING ACTIVITIES	**(3,144)**	**(9,904)**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**17,653**	**56,007**
CASH AND CASH EQUIVALENTS, Beginning	**64,197**	**8,190**
CASH AND CASH EQUIVALENTS, Ending	**$ 81,850**	**$ 64,197**
SUPPLEMENTARY CASH FLOW DISCLOSURES:		
Interest Paid	$ 14,235	$ 15,852

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

SAN MIGUEL EDUCATIONAL FUND
KOTO-FM

NOTES TO FINANCIAL STATEMENTS

December 31, 2013 and 2012

1. NATURE OF ORGANIZATION AND 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 FASC 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 FASC 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
Pledges receivable are recognized as contribution revenue in the period the pledge is received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Pledges 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 are recognized when the conditions on which they depend are substantially met. The Fund provides for probable uncollectible pledges 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 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 receivable. As of December 31, 2013 and 2012, an allowance of $595 for uncollectible pledges has been booked.

Pledges 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).

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.

INTANGIBLE ASSETS

The Fund capitalizes its licenses and amortizes them over the life of the license. The cost of capitalized licenses was $5,000 with accumulated amortization of $4,054 as of December 31, 2013 and $3,429 as of December 31, 2012. Amortization expense for the years ended December 31, 2013 and 2012 was $625 respectively.

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 fund-raising, 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, 2013 and 2012, contributed services were valued at $98,800 and $85,000 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.

FASC 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, 2013 and 2012. As a result, no interest or penalties were accrued for unrecognized tax benefits during the year.

As of December 31, 2013 the tax years for 2010 through 2012 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 expenses for the years ended December 31, 2013 and 2012 was $4,760 and $28,915 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.

2. LAND, BUILDINGS & EQUIPMENT

Property and equipment at December 31, 2013 and 2012 consist of:

	2013	2012
Building	$ 88,000	$ 88,000
Building Improvements	170,415	139,275
Equipment	522,406	516,523
Land	237,505	237,505
	1,018,326	981,303
Less Accumulated Depreciation	(422,063)	(394,476)
Net Property and Equipment	$ 596,263	$586,827

3. LINE OF CREDIT

The fund has a short-term line of credit with a local bank to facilitate working capital needs. The limit on the line is $8,000 and the interest rate is 8%. There was no amount outstanding at December 31, 2013 and 2012.

4. NOTE PAYABLE

The fund has a note with Alpine Bank Telluride. The original note signed was for $240,000 and is secured by the land and building. On August 1, 2012 the Fund signed a Change in Terms Agreement whereby the interest was changed to a fixed rate of 5.85%. The note calls for monthly payments of principal and interest in the amount of $1,564 with the balance to be paid off when the note matures March 1, 2014.

The Fund is currently in negotiations with Alpine Bank Telluride to re-finance the note when it matures on March 1, 2014.

Principal payments are due as of December 31, 2013 and 2014 are as follows:

March 31, 2014	$222,002

December 31, 2013	$ 5,756
2014	219,390
	$225,146

5. TEMPORARILY RESTRICTED NET ASSETS

At December 31, 2013 and 2012 temporarily restricted net assets of $22,000 and $487 were available. The funds for 2013 are available to be used for upgrading the Fund's computer system and/or for any legal fees which may be incurred. The funds for 2012 were available for the building fund which was to be used for remodeling and updating the fund's current facility or for acquiring new facilities.

6. SALES

Sales at December 31, 2013 consist of the following:

	Doodah	The Ride	Ski Swap	Misc	Total
Sales	$103,203	$ 73,503	$171,687	$ 53,696	$402,089
Cost of Sales	(108,734)	(38,650)	(143,515)	(29,497)	(320,396)
	$ (5,531)	$ 34,853	$ 28,172	$ 24,199	$ 81,693

Sales at December 31, 2012 consist of the following:

	Bluegrass	The Ride	Ziggy Marley	Ski Swap	Misc	Total
Sales	$301,514	$219,492	$ 96,303	$151,973	$ 62,219	$831,501
Cost of Sales	(234,471)	(188,269)	(79,103)	(128,135)	(52,967)	(682,945)
	$ 67,043	$ 31,223	$ 17,200	$ 23,838	$ 9,252	$148,556

7. 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, 2013 and 20122.

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.

8. 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 Sherriff’s Office of San Miguel County (Sherriff’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 Sherriff’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 monthly license fee will be $1,250 payable on the first day of each month during the renewal term of this agreement only. Annual increases of 2.5% will apply after the first anniversary of the commencement date and each one-year anniversary thereafter. Exelis, Inc. is permitted to use Coonskin Property rent free during the initial license term. The Fund’s portion of the monthly license fee shall be 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 of the use of the premises, Exelis, Inc. shall pay the Fund, TSG and the Sherriff’s Office a one-time capital contribution of $21,000 dollars. The Fund’s portion of the capital contribution is 33.33%.

Future minimum income under the agreement as of December 31, 2013 is as follows:

December 31, 2014	$ 6,970
2015	7,144
2016	7,323
2017	7,184
2018	7,694
Future Years	188,835
Total	$ 225,150

Future minimum income under the agreement as of December 31, 2012 is as follows:

December 31, 2013	$ 13,799
2014	6,970
2015	7,144
2016	7,323
2017	7,506
Future Years	196,528
Total	$ 239,270

9. EMPLOYEE BENEFTIS

The Fund has purchased tax sheltered annuities 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 annuity contracts. As of December 31, 2013 and 2012 the Fund had contributed $1,850 and $2,200 respectively to the annuity contract.

10. SUBSEQUENT EVENTS

Subsequent events were evaluated through March 12, 2014, which is the date the financial statements were available to be issued.