

**SAN MIGUEL EDUCATIONAL FUND
KOTO-FM**

FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

December 31, 2020 and 2019

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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, 2020 and 2019, 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.

Certified Public Accountants

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, 2020 and 2019, 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

May 5, 2021

**San Miguel Educational Fund
KOTO-FM
Statements of Financial Position
December 31, 2020 and 2019**

	2020	2019
ASSETS		
Current Assets:		
Cash and equivalents	\$ 461,654	\$ 152,046
Accounts receivable	700	250
Pledges receivable	7,092	9,695
Grants receivable	-	86,811
Merchandise inventory	766	1,885
Prepaid expenses	10,999	10,699
Total Current Assets	481,211	261,386
Land, Building and Equipment, net	445,614	459,912
TOTAL ASSETS	\$ 926,825	\$ 721,298
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 4,167	\$ 7,058
Accrued liabilities	7,051	7,340
Note payable	99,360	183,182
Total Current Liabilities	110,578	197,580
Net Assets		
Without donor restrictions	816,247	521,218
With donor restrictions	-	2,500
Total Net Assets	816,247	523,718
TOTAL LIABILITIES AND NET ASSETS	\$ 926,825	\$ 721,298

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, 2020 and 2019

	2020			2019		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
Operating Activities:						
Contributions	\$ 262,041	\$ -	\$ 262,041	\$ 208,291	\$ 2,500	\$ 210,791
Grants	399,206	38,615	437,821	134,728	54,740	189,468
Donated services	70,637	-	70,637	104,364	-	104,364
Event proceeds, net	6,555	-	6,555	74,976	-	74,976
Rental income	10,559	-	10,559	8,596	-	8,596
Other income	1,238	-	1,238	702	-	702
Total revenue and support before releases						
Net assets released from restrictions:	<u>41,115</u>	<u>(41,115)</u>	<u>-</u>	<u>59,890</u>	<u>(59,890)</u>	<u>-</u>
Total revenue and support	<u>791,351</u>	<u>(2,500)</u>	<u>788,851</u>	<u>591,547</u>	<u>(2,650)</u>	<u>588,897</u>
Expenses						
Program services	351,297	-	351,297	407,493	-	407,493
General & administrative	69,791	-	69,791	50,222	-	50,222
Fundraising	75,296	-	75,296	99,505	-	99,505
Total expenses	<u>496,384</u>	<u>-</u>	<u>496,384</u>	<u>557,220</u>	<u>-</u>	<u>557,220</u>
Changes in net assets from operating activities	294,967	(2,500)	292,467	34,327	(2,650)	31,677
Nonoperating Activities:						
Investment income, net	62	-	62	98	-	98
Changes in net assets	295,029	(2,500)	292,529	34,425	(2,650)	31,775
Net assets, Beginning	<u>521,218</u>	<u>\$ 2,500</u>	<u>523,718</u>	<u>486,793</u>	<u>5,150</u>	<u>491,943</u>
Net assets, Ending	<u>\$ 816,247</u>	<u>\$ -</u>	<u>\$ 816,247</u>	<u>\$ 521,218</u>	<u>\$ 2,500</u>	<u>\$ 523,718</u>

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, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities		
Change in net position	\$ 292,529	\$ 31,775
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation expense	26,266	27,776
Change in operating assets and liabilities		
(Increase) decrease in pledges receivable	2,603	16,760
(Increase) decrease in grants receivable	86,811	1,896
(Increase) decrease in merchandise inventory	1,119	(1,171)
(Increase) decrease in prepaid expenses	(300)	261
(Increase) decrease in other assets	(450)	707
Increase (decrease) in accounts payable	(2,891)	(11,825)
Increase (decrease) in accrued liabilities	(289)	6,504
Net cash provided by (used in) operating activities	<u>405,398</u>	<u>72,683</u>
Cash flows from investing activities		
Cash paid for property and equipment	<u>(11,968)</u>	<u>(18,557)</u>
Net cash provided by (used in) investing activities	<u>(11,968)</u>	<u>(18,557)</u>
Cash flow from financing activities		
Mortgage payments	<u>(83,822)</u>	<u>(7,458)</u>
Net cash provided (used) by financing activities	<u>(83,822)</u>	<u>(7,458)</u>
Net increase (decrease) in cash and cash equivalents	309,608	46,668
Cash and cash equivalents, beginning of year	152,046	105,378
Cash and cash equivalents, end of year	<u>\$ 461,654</u>	<u>\$ 152,046</u>
<u>Supplemental disclosure</u>		
Interest paid	\$ 8,328	\$ 11,273

The accompanying notes are an integral part of this statement.

**SAN MIGUEL EDUCATIONAL FUND
KOTO-FM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

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 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 Fund 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 Fund. The Fund’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 Fund or by the passage of time. Other donor restrictions are perpetual in nature, whereby 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 contributions or grants in the period the pledge or grant is received or declared, 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 next year and at present value if expected to be collected later than the next year. Conditional pledges and grants are recognized when the conditions on which they depend are substantially met. The Fund reviews pledges and grants receivable on at least an annual basis to assess the current status of individual pledges. Pledges and grants that are still outstanding after management has made reasonable efforts are written off by a charge to pledges uncollectible and a credit to pledges or grants receivable. As of December 31, 2020, \$9,815 had been written off for 2020. No similar write-offs were recorded in 2019.

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, 2020 AND 2019**

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, 2020 AND 2019**

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, 2020 and 2019, contributed services were valued at \$68,449 and \$104,364, 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, 2020 and 2019. As a result, no interest or penalties were accrued for unrecognized tax benefits during the year. As of December 31, 2020 the tax years for 2017 through 2019 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, 2020 and 2019 was \$0 and \$5,001 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, 2020 AND 2019**

NOTE 2 - LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment at December 31, 2020 and 2019 consist of:

	2020	2019
Building	\$ 88,000	\$ 88,000
Building Improvements	178,014	172,916
Equipment	559,873	553,003
Land	237,505	237,505
	1,063,392	1,051,424
Less Accumulated Depreciation	(617,778)	(591,512)
Land, Buildings and Equipment, Net	\$ 445,614	\$ 459,912

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 and interest payments due as of December 31, 2020 are as follows:

	Principal	Interest
2021	\$ 13,487	\$ 5,245
2022	14,266	4,466
2023	15,089	3,643
2024	15,960	2,772
2025	16,881	1,851
2025-2027	23,677	942
	\$ 99,360	\$ 18,919

NOTE 4 – EVENT PROCEEDS

Event proceeds at December 31, 2020:

	Total
Events Income	\$ 7,885
Cost of Sales	(1,330)
	\$ 6,555

Event proceeds at December 31, 2019:

	Total
Events Income	\$ 403,094
Cost of Sales	(328,118)
	\$ 74,976

**SAN MIGUEL EDUCATIONAL FUND
KOTO-FM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

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 deposits on December 31, 2020 of \$460,267 which \$250,000 was insured by FDIC.

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, 2020 AND 2019**

NOTE 6 - FACILITY AND TOWER LICENSE AGREEMENT

Future minimum income under the agreement as of December 31, 2020 is as follows:

December 31, 2020	\$ 8,083
2021	8,285
Future Years	<u>164,581</u>
Total	<u>\$180,949</u>

NOTE 7 - EMPLOYEE BENEFITS

Through December 31, 2019, the Fund provided a retirement program for the staff via a deferred compensation arrangement with mutual funds from Dreyfus Trust Co. Effective January 1, 2020, that program was replaced with a SIMPLE IRA plan in which the employees may make pre-tax contributions to self-directed IRA mutual funds and the Fund may match the employee contributions up to 3% of compensation. For the year ended December 31, 2020 and 2019, the Fund contributed \$2350 and \$600, respectively.

NOTE 8 - SUBSEQUENT EVENTS

Subsequent events were evaluated through May 5, 2021, the date on which the financial statements were available to be issued. There were additional subsequent events identified that require disclosure.

On January 30, 2020, the World Health Fund (“WHO”) announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the “COVID-19 outbreak”) and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the Fund’s financial condition, liquidity, and future results of operations. Management is actively monitoring the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Fund is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for fiscal year 2021.

The Fund is dependent on fundraising and social events. Developments such as social distancing and shelter-in-place directives have impact the Fund’s ability to fundraising and have social events. While expected to be temporary, prolonged disruptions may negatively impact services and the Fund’s overall liquidity.