

**Kotzebue Broadcasting, Inc.
Audited Financial Statements**

June 30, 2017 and 2016

KOTZEBUE BROADCASTING, INC.

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Kotzebue Broadcasting, Inc.
Kotzebue, Alaska

We have audited the accompanying financial statements of Kotzebue Broadcasting, Inc., (a nonprofit organization), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities, statements of functional expenses 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. Those standards require that we plan and perform the audits 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 Kotzebue Broadcasting, Inc., as of June 30, 2017 and 2016, 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.

Foster and Company, LLC

Foster and Company, LLC
Wasilla, Alaska

September 5, 2017

KOTZEBUE BROADCASTING, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2017 and 2016

	2017	2016
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 132,584	\$ -
Accounts and Grant Receivable	41,539	218,059
Inventory	4,667	11,550
Prepaid Expenses	9,382	6,312
TOTAL CURRENT ASSETS	188,172	235,921
PROPERTY AND EQUIPMENT		
Land	6,000	6,000
Buildings	489,664	486,894
Broadcast Equipment	538,745	538,745
Furniture and Fixtures	53,395	49,186
	1,087,804	1,080,825
LESS ACCUMULATED DEPRECIATION	(835,030)	(795,643)
PROPERTY AND EQUIPMENT - NET	252,774	285,182
TOTAL ASSETS	440,946	521,103
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts Payable	81,388	117,881
Accrued Payroll	4,296	17,775
Accrued Vacation Payable	7,929	11,426
Payroll Taxes Payable	184,310	75,799
TOTAL CURRENT LIABILITIES	277,923	222,881
TOTAL LIABILITIES	277,923	222,881
NET ASSETS		
Unrestricted Net Assets		
Undesignated	(89,751)	13,040
Net Investment in Property and Equipment	252,774	285,182
TOTAL NET ASSETS	163,023	298,222
TOTAL LIABILITIES AND NET ASSETS	\$ 440,946	\$ 521,103

See Independent Auditor's Report and Notes to the Financial Statements

KOTZEBUE BROADCASTING, INC.
STATEMENTS OF ACTIVITIES
Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
UNRESTRICTED NET ASSETS		
Revenue and Support		
Grants	\$ 217,957	\$ 318,671
Contributions and Memberships	111,478	149,860
Underwriting	37,620	35,937
Gaming	181,238	181,678
Contributed Services	23,606	6,656
Other Income	<u>16,384</u>	<u>18,440</u>
Total Revenue and Support	<u>588,283</u>	<u>711,242</u>
Expenses		
Programming and Production	160,349	223,864
Technical	216,603	239,957
Fundraising	138,412	129,184
Administration	<u>208,118</u>	<u>141,064</u>
Total Expenses	<u>723,482</u>	<u>734,069</u>
DECREASE IN NET ASSETS	(135,199)	(22,827)
NET ASSETS AT BEGINNING OF YEAR	<u>298,222</u>	<u>321,049</u>
NET ASSETS AT END OF YEAR	<u>\$ 163,023</u>	<u>\$ 298,222</u>

See Independent Auditor's Report and Notes to the Financial Statements

KOTZEBUE BROADCASTING, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
Years Ended June 30, 2017 and 2016

	Programming and Production	Technical	Fund Raising	Administration	2017 Totals
Personnel	\$ 95,256	100,753	79,124	116,847	\$ 391,980
Programming and Production	35,567	32,386	-	-	67,953
Utilities	14,144	35,411	3,510	14,144	67,209
Telephone and Postage	4,123	11,544	-	4,662	20,329
Gaming Taxes and Supplies	-	-	40,596	3,057	43,653
Insurance	3,519	3,618	3,984	3,426	14,547
Repairs and Maintenance	1,084	1,109	-	1,484	3,677
Professional Fees	-	-	5,629	19,221	24,850
Travel	-	-	-	3,547	3,547
Other	-	-	4,439	18,305	22,744
Depreciation	-	31,782	1,130	6,475	39,387
Contributed Services	6,656	-	-	16,950	23,606
TOTALS	\$ 160,349	216,603	138,412	208,118	\$ 723,482

	Programming and Production	Technical	Fund Raising	Administration	2016 Totals
Personnel	\$ 131,865	117,067	80,408	78,275	\$ 407,615
Programming and Production	56,443	31,973	-	-	88,416
Utilities	14,602	37,550	3,128	14,605	69,885
Telephone and Postage	4,415	11,287	3,762	1,247	20,711
Gaming Taxes and Supplies	-	-	38,014	6,084	44,098
Insurance	4,622	4,043	2,889	2,889	14,443
Repairs and Maintenance	1,058	415	-	3,644	5,117
Professional Fees	-	-	-	8,045	8,045
Travel	2,610	-	-	7,126	9,736
Other	1,593	-	-	10,568	12,161
Depreciation	-	37,622	983	6,530	45,135
Contributed Services	6,656	-	-	-	6,656
Loss on Disposal of Assets	-	-	-	2,051	2,051
TOTALS	\$ 223,864	239,957	129,184	141,064	\$ 734,069

KOTZEBUE BROADCASTING, INC.
STATEMENTS OF FINANCIAL POSITION
Years Ended June 30, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Decrease in net assets	\$ (135,199)	\$ (22,827)
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation	39,387	45,135
Disposal of Equipment, Net of Recaptured Depreciation	-	2,051
(Increase) Decrease in operating assets		
Accounts and Grants Receivable	176,520	(218,059)
Inventory	6,883	(2,679)
Prepaid Expenses and Other Assets	(3,070)	(1,376)
Increase (Decrease) in operating liabilities		
Accounts Payable	(36,493)	112,460
Accrued Payroll and Related Liabilities	91,535	70,871
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	139,563	(14,424)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for Equipment	(6,979)	(10,123)
NET CASH (USED) PROVIDED BY INVESTING ACTIVITIES	(6,979)	(10,123)
NET INCREASE IN CASH AND CASH EQUIVALENTS	132,584	(24,547)
BEGINNING CASH AND CASH EQUIVALENTS	-	24,547
ENDING CASH AND CASH EQUIVALENTS	\$ 132,584	\$ -

See Independent Auditor's Report and Notes to the Financial Statements

KOTZEBUE BROADCASTING, INC.
AUDITED FINANCIAL STATEMENTS
JUNE 30, 2017 and 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities – Kotzebue Broadcasting, Inc. (KOTZ) is a non-profit public radio station incorporated to provide and promote noncommercial educational radio broadcasting in the Kotzebue region of Alaska. The financial statements are presented on the accrual basis of accounting. The more significant accounting policies are summarized below.

Use of Estimates – Management uses estimates and assumptions in preparing these financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that are used.

Revenue and Support – In accordance with FASB ASC 958-065, *Not-for-Profit Entities: Revenue Recognition*, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Financial Statement Presentation – The Organization has adopted FASB ASC 958-205 “*Not-for-Profit Entities: Presentation of Financial Statements*”. Under FASB ASC 958-205 information regarding the Corporation’s financial position and activities is reported according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Donated Materials and Services – Donated materials and services meeting the criteria of FASB ASC 958-205 “*Not-for-Profit Entities: Presentation of Financial Statements*” are recorded at their estimated fair value as of the date of the contribution. The amount of the contribution is presented as both support and expense in the accompanying financial statements.

Cash and Cash Equivalents – For purposes of the statement of cash flows, KOTZ considers all demand deposits and highly liquid investments with an original maturity of three months or less to be cash equivalents.

Inventory – Inventory consists of unopened Games of Chance and is stated at cost on a first-in, first-out basis, as well as sweatshirts and membership premiums.

Property and Equipment – Property and equipment is recorded at cost or, in the case of donated property, at its estimated fair value as of the date of the contribution. The organization does not have a capitalization policy. Depreciation is provided using the straight-line method over the estimated useful lives of the property, which range from five to fifteen years. Expenditures for repairs and maintenance are charged against operations as incurred.

KOTZEBUE BROADCASTING, INC.
AUDITED FINANCIAL STATEMENTS
JUNE 30, 2017 and 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes – KOTZ is exempt from federal and state income taxes as a non-profit corporation under Section 501 (c) (3) of the Internal Revenue Code and is classified as other than a private foundation. The Organization believes that it has appropriate support for any tax positions taken, and as such does not have any uncertain tax positions that are material to the financial statements.

NOTE 2 – DESCRIPTION OF PROGRAM AND SUPPORTING SERVICES

Program and Production – Includes the personnel and direct production costs related to public broadcast programming.

Broadcasting and Technical – Includes the direct costs for maintenance, support and replacement of the facility and equipment used for public broadcasting.

Administration – Includes the functions necessary to maintain an equitable employment program; ensure an adequate working environment; provide coordination and articulation of the Organization’s program strategy through the Office of the General Manager; secure proper administrative functioning of the Board of Directors; maintain competent legal services for the program administration of the Organization; and manage the financial and budgetary responsibilities of the Organization.

Fundraising – Provides the structure necessary to encourage and secure private financial support.

NOTE 3 – CASH

The Organization maintains funds in several accounts at two banks. The funds are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per account holder. The funds did not exceed the \$250,000 deposit insurance coverage at either institution at June 30, 2017 and 2016, respectively.

NOTE 4 – MAJOR FUNDING SOURCES

KOTZ received \$173,407 and \$164,462 from the Corporation for Public Broadcasting during the fiscal years ended June 30, 2017 and 2016, respectively. During the fiscal years ended June 30, 2017 and 2016, CPB assistance totaled approximately 31% and 23% of total revenue, respectively. The Alaska Public Broadcasting Commission provided \$44,550 and \$117,633 during the fiscal years ended June 30, 2017 and 2016, respectively. During the fiscal years ended June 30, 2017 and 2016, APBC assistance totaled approximately 8% and 17% of total revenue, respectively.

NOTE 5 – ACCOUNTS AND GRANTS RECEIVABLE

Accounts and grants receivable consisted primarily of \$41,339 and \$201,038 for the fiscal years ended June 30, 2017 and 2016, respectively, from the Corporation for Public Broadcasting. There were \$12,021 of additional receivables from various sources for the year ended June 30, 2016. All funds are considered by management to be fully collectible.

KOTZEBUE BROADCASTING, INC.
AUDITED FINANCIAL STATEMENTS
JUNE 30, 2017 and 2016

NOTE 6 – PROPERTY AND EQUIPMENT

Depreciation expense totaled \$45,135 and \$39,387 for the years ended June 30, 2017 and 2016, respectively. Property and equipment totaling \$6,979 and \$10,123 was purchased during the years ended June 30, 2017 and 2016, respectively, and property and equipment with a book value of \$2,051 was disposed of in FY16.

NOTE 7 – ACCOUNTS PAYABLE

Accounts payable consists of trade payables to various suppliers. The reported amounts were \$81,388 and \$112,881 for the years ended June 30, 2017 and 2016, respectively.

NOTE 8 – PAYROLL TAXES PAYABLE AND ESTIMATED PENALTIES

The organization experienced significant cash flow shortages beginning in December 2105 and the prior management ceased payroll tax payments to the internal revenue service (IRS) and the State of Alaska at that time. As a result, the organization owed approximately \$177,000 and \$67,000 in delinquent payroll tax deposits at June 30, 2017 and June 30, 2016, respectively, not including accrued interest or penalties. Accrued interest and penalties could be over \$100,000 by June 30, 2017 but is considered not estimable due to the expectation that a significant portion of the penalties may be abated depending on the success of negotiations with the IRS.

NOTE 9 – DONATED VOLUNTEER SERVICES

Volunteers have donated time to KOTZ's program services and fund-raising efforts. One individual has volunteered at the station for twenty years at an estimated value of approximately \$6,656 per year. In FY17, volunteer management services totaled \$16,950.

NOTE 10 – COMMITMENTS and CONTINGENCIES

KOTZ receives grants that are subject to audit and adjustment by the grantor agencies. Any expenditure disallowed as a result of such an audit and for which grant monies had been expended would become a liability of KOTZ. At June 30, 2016, no such audit was pending and the current management of KOTZ does not anticipate any such liability arising that would have a material effect on the financial condition of KOTZ.

NOTE 11 – FILING OF REPORTS

As of June 30, 2017 and 2016, KOTZ had not filed a number of the required State of Alaska and IRS quarterly and annual payroll tax reports. Additionally, reports required by major grantors such as APBC and CPB were not timely filed. As a result, financial sanctions in the form of a reduced grant award from APBC impacted operation revenue of the station for the year ended June 30, 2017. CPB is working with current management in order to correct late filings for both years. In addition, current management contracted with an outside accountant to complete all required past due federal and state payroll tax reports, is complying with all current payroll tax deposits, and has contacted the IRS to resolve the delinquency issue overall.

KOTZEBUE BROADCASTING, INC.
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NOTE 12 – GAMING ACTIVITY

KOTZ operates a pull-tab gaming activity in support of its exempt purpose. Prize payouts are generally paid in cash out of gross gaming receipts and the net amount realized is recognized in the accompanying statements of activity as gaming revenue. The gross gaming activity for the fiscal years ended June 30, 2017 and 2016, is as follows:

	<u>2017</u>	<u>2016</u>
Gross Gaming Receipts	\$ 1,186,944	\$ 1,231,726
Less: Prize Payouts	<u>(1,005,706)</u>	<u>(1,050,048)</u>
Net Gaming Revenue	\$ <u>181,238</u>	\$ <u>181,678</u>

NOTE 13 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 5, 2017, that date which the financial statements were available for issue. No events were identified that would require disclosure according to generally acceptable accounting principles.