

**Terminal Radio, Inc.
Audited Financial Statements**

June 30, 2018 and 2017

TERMINAL RADIO, INC.

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Terminal Radio, Inc.
Valdez, Alaska

We have audited the accompanying financial statements of Terminal Radio, Inc., (a nonprofit organization), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, statement of functional expenses, and statement of cash flows for the year then ended, and the related notes to the financial statements. The financial statements of Terminal Radio, Inc., as of June 30, 2017, were audited by other auditors whose report dated November 30, 2017, expressed an unqualified opinion on those 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 audits 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 Terminal Radio, Inc., as of June 30, 2018, 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.

Foster and Company, LLC

Foster and Company, LLC
Wasilla, Alaska

February 13, 2019

TERMINAL RADIO, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2018 and 2017

	2018	2017
<u>ASSETS</u>		
Current Assets:		
Cash and Cash Equivalents	\$ 9,721	\$ 32,547
Accounts and Grant Receivable, net	11,614	16,746
Inventories	1,233	1,233
Prepaid Expenses	4,138	2,594
Total Current Assets	26,706	53,120
Property and Equipment, net	176,949	197,631
TOTAL ASSETS	203,655	250,751
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities:		
Accounts Payable	5,312	4,664
Accrued Expenses	14,724	14,850
Deferred Revenue	2,466	-
Total Current Liabilities	22,502	19,514
TOTAL LIABILITIES	22,502	19,514
NET ASSETS		
Unrestricted Net Assets		
Undesignated	2,615	29,917
Net Investment in Property and Equipment	176,949	197,631
Temporarily Restricted	1,589	3,689
TOTAL NET ASSETS	181,153	231,237
TOTAL LIABILITIES AND NET ASSETS	\$ 203,655	\$ 250,751

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

TERMINAL RADIO, INC.
STATEMENTS OF ACTIVITIES
Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Changes in Unrestricted Net Assets		
Revenue and Support:		
Grants and Donations	\$ 210,044	\$ 225,205
Gaming Proceeds	10,224	22,031
Underwriting Contributions	22,405	37,905
In-Kind Contributions	74,518	70,698
Rental Income	27,750	24,000
Membership Dues	8,540	7,990
Other	13,864	13,190
	<u>367,345</u>	<u>401,019</u>
 Total Net Assets Released from Restrictions	 <u>30,019</u>	 <u>24,954</u>
 Total Revenue and Support	 <u>397,364</u>	 <u>425,973</u>
Expenses		
Programming and Production	173,203	187,028
Broadcasting and Transmission	78,909	89,056
Management and General	153,127	152,899
Fundraising and Gaming	34,494	52,806
Rental Expenses	5,615	7,600
	<u>445,348</u>	<u>489,389</u>
Total Expenses	<u>445,348</u>	<u>489,389</u>
Increase/(Decrease) in Unrestricted Net Assets	<u>(47,984)</u>	<u>(63,416)</u>
Changes in Temporarily Restricted Net Assets		
Grants	<u>27,919</u>	<u>26,516</u>
Net Assets Released from Restrictions		
Restrictions Satisfied by Payments	<u>(30,019)</u>	<u>(24,954)</u>
Increase/(Decrease) in Temporarily Restricted Net Assets	<u>(2,100)</u>	<u>1,562</u>
Changes in Net Assets	(50,084)	(61,854)
Net Assets - Beginning of Year, as previously stated	231,237	388,825
Prior-Period Adjustments	-	(95,734)
Net Assets - Beginning of Year, restated	<u>231,237</u>	<u>293,091</u>
Net Assets - End of Year	<u>\$ 181,153</u>	<u>\$ 231,237</u>

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

TERMINAL RADIO, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
Years Ended June 30, 2018 and 2017

	PROGRAM		ADMINISTRATION AND GENERAL			2018 Totals
	Programming and Production	Broadcasting and Transmissions	Management and General	Fundraising and Gaming	Rental	
Personnel Costs	\$ 93,182	-	75,544	27,109	-	\$ 195,835
Program Costs	35,043	-	-	5,868	-	40,911
Broadcast Support	-	32,846	-	-	-	32,846
Contract Services	-	1,895	11,396	-	-	13,291
Telephone and Internet	14,663	11,912	9,852	-	-	36,427
Repairs and Maintenance	-	-	2,569	-	1,006	3,575
Rent	-	10,211	-	-	-	10,211
Supplies	6,417	289	1,567	21	-	8,294
Travel	-	-	222	-	-	222
Utilities	-	20,399	8,707	-	1,609	30,715
Postage	-	-	166	360	-	526
Insurance	-	1,039	10,394	-	-	11,433
Other	23,898	318	8,810	1,136	3,000	37,162
Total Cash Operating Expenses	<u>173,203</u>	<u>78,909</u>	<u>129,227</u>	<u>34,494</u>	<u>5,615</u>	<u>421,448</u>
Depreciation	-	-	23,900	-	-	23,900
TOTALS	<u>\$ 173,203</u>	<u>78,909</u>	<u>153,127</u>	<u>34,494</u>	<u>5,615</u>	<u>\$ 445,348</u>

	PROGRAM		ADMINISTRATION AND GENERAL			2017 Totals
	Programming and Production	Broadcasting and Transmissions	Management and General	Fundraising and Gaming	Rental	
Personnel Costs	\$ 113,168	-	73,285	35,331	-	\$ 221,784
Program Costs	34,336	-	-	12,715	-	47,051
Broadcast Support	-	32,894	-	-	-	32,894
Contract Services	-	5,213	12,311	-	-	17,524
Telephone and Internet	6,100	17,155	3,990	-	-	27,245
Repairs and Maintenance	-	-	1,994	-	1,116	3,110
Rent	-	10,908	-	-	-	10,908
Supplies	13,801	41	1,306	2,598	-	17,746
Travel	-	-	144	-	-	144
Utilities	-	21,706	9,635	-	3,484	34,825
Postage	-	-	443	290	-	733
Insurance	-	1,039	9,531	-	-	10,570
Other	19,623	100	15,441	1,872	3,000	40,036
Total Cash Operating Expenses	<u>187,028</u>	<u>89,056</u>	<u>128,080</u>	<u>52,806</u>	<u>7,600</u>	<u>464,570</u>
Depreciation	-	-	24,819	-	-	24,819
TOTALS	<u>\$ 187,028</u>	<u>89,056</u>	<u>152,899</u>	<u>52,806</u>	<u>7,600</u>	<u>\$ 489,389</u>

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

TERMINAL RADIO, INC.
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (Decrease) in net assets	\$ (50,084)	\$ (61,854)
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation	23,900	24,819
(Increase) Decrease in operating assets		
Accounts and Grants Receivable	5,132	4,788
Inventory	-	1,104
Prepaid Expenses and Other Assets	(1,544)	7,260
Increase (Decrease) in operating liabilities		
Accounts Payable	648	3,721
Accrued Expenses	(126)	3,253
Deferred Revenue	2,466	(200)
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	(19,608)	(17,109)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	(3,218)	(3,500)
NET CASH (USED) PROVIDED BY INVESTING ACTIVITIES	(3,218)	(3,500)
NET INCREASE IN CASH AND CASH EQUIVALENTS	(22,826)	(20,609)
BEGINNING CASH AND CASH EQUIVALENTS	32,547	53,156
ENDING CASH AND CASH EQUIVALENTS	\$ 9,721	\$ 32,547

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

TERMINAL RADIO, INC.
AUDITED FINANCIAL STATEMENTS
JUNE 30, 2018 and 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Operation – Terminal Radio, Inc. (KCHU) is a public service radio station whose purpose is to serve the educational, cultural and informational needs of the south-central Alaskan community in the Copper River Basin and Prince William Sound areas. Terminal Radio, Inc., is a non-profit 501(c)(3) organization since 1980, governed by a nine-member Board of Directors. As such, the accompanying statements of financial position and related statements of activities and statements of cash flows reflect the assets owned by the Organization. Terminal Radio, Inc. is funded by a variety of sources including but not limited to membership dues, federal, state and local grants, gaming operations, underwriting, in-kind donations, and other miscellaneous sources of funding. The Organization's office is located in Valdez, Alaska and operates a station there as KCHU 770 AM. In addition, the Organization has additional licensed stations located in Glennallen (KXGA 90.5 FM) and McCarthy (KXKM 89.7FM) and is repeated by translators in Cordova, Chenega Bay and Tatitlek at 88.1 FM, and Whittier at 88.3 FM.

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. Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of Terminal Radio, Inc. and changes therein are classified and reported as follows:

Unrestricted Net Assets-

Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets-

Net assets subject to donor-imposed stipulations on the use of the assets that will be met either by actions of Terminal Radio, Inc. and /or the passage of time.

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. Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restriction. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as a "release of restrictions" in the accompanying statement of activities.

See Independent Auditor's Report

TERMINAL RADIO, INC.
AUDITED FINANCIAL STATEMENTS
JUNE 30, 2018 and 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Terminal Radio, Inc. engages in periodic fund-raising campaigns manifested by offering some special radio programs and on-air and mail fund-raising appeals. These appeals encourage support, both from individuals and organizations, to provide financial contributions to Terminal Radio, Inc. for enhancement of program offerings and other operating expenses. Financial contributions are frequently evidenced by pledges received from responding listeners. Contributions including unconditional promises to give, and membership receipts are recognized as revenue in the period received or given. However, uncollected pledges are not enforceable against contributors. All member pledges receivable are promises to give within one year. Contributions and collected pledges are unrestricted as to their usage if not limited to specific activities of Terminal Radio, Inc. This usage is consistent with appeals for contributions and pledges.

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. Donations of property and equipment are recorded as contributions at their estimated fair value at the date of donation. If the fair value of contributed materials, supplies, facilities, services, and property cannot be reasonably determined, they are not recorded. Such donations are reported as increases in unrestricted net assets 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 restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor.

The Organization 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 skill, are performed by people with those skills, and would otherwise be purchased by the Organization if not provided by donation.

Functional Allocation of Expenses – The costs of providing the various program services and other activities have been summarized on a functional basis in the statement of activities. Certain costs have been allocated between the program and supporting services on the basis of the benefits received.

Cash and Cash Equivalents – For purposes of the statement of cash flows, KCHU considers all demand deposits and highly liquid investments with an original maturity of three months or less to be cash equivalents. In accordance with State of Alaska law, gaming income is deposited into a separate account and held until used for an approved purpose.

TERMINAL RADIO, INC.
AUDITED FINANCIAL STATEMENTS
JUNE 30, 2018 and 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounts Receivable – Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to a valuation allowance and a credit to accounts receivable. Net receivable are due within one year.

Licensed Program Rights – Program series and other syndicated products are recorded at the lower of unamortized cost, based on the gross amount of the related liability, or estimated net realizable value. Generally, these program and products are amortized on a straight-line basis over the period of the license agreement. At fiscal year ended June 30, 2018 and 2017, the Organization did not have any unamortized program rights.

Costs Incurred for Programs Not Yet Broadcast – Costs incurred for programs not yet broadcast are recorded as deferred assets. Such costs relate to programs produced by Terminal Radio, Inc. that will be broadcast subsequent to June 30, 2017. As the programs are broadcast, the costs incurred are included in operating expenses. Program status is evaluated annually. Costs associated with programs not considered to have future benefit are adjusted to net realizable value. At June 30, 2017 there were no long-term costs incurred for programs not yet broadcast.

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

Property and Equipment – Acquisitions of property and equipment in excess of \$300 are capitalized when the useful life extends beyond a year. Acquisitions less than \$300 are expensed when incurred. Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. The cost of property and equipment is depreciated over the estimated useful life of each class of depreciable assets and depreciation is computed using the straight-line method. Estimated useful lives of the assets are as follows:

<u>Asset Category</u>	<u>Estimated Useful Life (in years)</u>
Buildings	31
Broadcasting equipment	7-15
Furniture and fixtures	3-7
Intangible asset	5

Property acquired is considered to be owned by Terminal Radio, Inc. However, assets purchased through Alaska Public Broadcasting Inc. (APBI) may not be put to a different purpose or disposed of without the written permission of APBI.

TERMINAL RADIO, INC.
AUDITED FINANCIAL STATEMENTS
JUNE 30, 2018 and 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes – Terminal Radio, Inc. is organized exclusively for charitable and educational purposes within the meaning of Internal Revenue Code Section 501(c)(3). The Organization has been determined by the Internal Revenue Service not to be a private foundation with the meaning of Section 509(a) of the Code. Although the Organization is exempt from federal income taxes, any income derived from unrelated business activities is subject to the requirement of filing Federal Income Tax Form 990-T and a tax liability may be determined on these activities. The Organization's Forms 990, *Return of Organization Exempt from Income Tax* and 990T *Exempt Organization Business Income Tax Returns*, for the years ended 2016, 2017 and 2018 are subject to examination by the IRS, generally for three years after they were filed.

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 local 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, 2018 and 2017, respectively.

NOTE 4 – MAJOR FUNDING SOURCES

KCHU received \$114,758 and \$119,457 from the Corporation for Public Broadcasting during the fiscal years ended June 30, 2018 and 2017, respectively. During the fiscal years ended June 30, 2018 and 2017, CPB assistance totaled approximately 36% and 33% of total revenue, respectively. The Alaska Public Broadcasting Commission provided \$82,386 and \$82,811 during the fiscal years ended June 30, 2018 and 2017, respectively. During the fiscal years ended June 30, 2018 and 2017, APBC assistance totaled approximately 26% and 23% of total revenue, respectively.

TERMINAL RADIO, INC.
AUDITED FINANCIAL STATEMENTS
JUNE 30, 2018 and 2017

NOTE 5 – ACCOUNTS AND GRANTS RECEIVABLE

Accounts and grants receivable consisted primarily of the following fiscal years ended June 30, 2018 and 2017, respectively. All funds are considered by management to be fully collectible.

	2018	2017
Donations and Underwriting	\$ 13,253	\$ 15,964
Grants Receivable	-	2,800
Other	423	44
	<u>13,676</u>	<u>18,808</u>
Less: Allowance	(2,062)	(2,062)
	<u>\$ 11,614</u>	<u>\$ 16,746</u>

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment at June 30 consisted of the following:

	2018	2017
Broadcast equipment	\$ 751,428	\$ 748,210
Building and improvements	373,088	373,088
Furniture and fixtures	51,388	51,388
Land	39,779	39,779
Website development	8,546	8,546
	<u>1,224,229</u>	<u>1,221,011</u>
Less accumulated depreciation	(1,047,280)	(1,023,380)
	<u>\$ 176,949</u>	<u>\$ 197,631</u>

Depreciation expense totaled \$23,900 and \$24,819 for the years ended June 30, 2018 and 2017, respectively.

NOTE 7 – OPERATING LEASE COMMITMENTS AND CONTINGENCIES

The Organization leases tower space for certain repeater stations located on Tolsona Ridge from third parties. Total lease expense was \$ 10,908 in 2018 and \$10,810 in 2017. This lease expires January 1, 2020. Future minimum rental payments are:

2019	\$ 10,800
2020	5,400
	<u>\$ 16,200</u>

The Organization leases office space to two tenants under yearly leases. Total rental income from this activity was \$27,750 in 2018 and \$24,000 in 2017.

TERMINAL RADIO, INC.
AUDITED FINANCIAL STATEMENTS
JUNE 30, 2018 and 2017

NOTE 8 – DONATED SERVICES

In-kind contributions include a variety of donated services received throughout the year. In-kind contributions are primarily associated with the Organization's broadcasting and transmission activities. The largest contribution of in-kind services is provided by Alaska Public Broadcasting, Inc. (APBI) for satellite service fees, administrative services, training and other operational costs. The fair value of donated services included as support in the financial statements and the corresponding expenses for the year ended June 30, 2018 and 2017 was as follows:

	2018	2017
APBI Support	\$ 32,846	\$ 32,894
Telephone, DSL, cell service	1,754	3,155
Advertising	23,688	20,148
Repair	-	822
Other	14,742	13,679
	<u>\$ 73,030</u>	<u>\$ 70,698</u>

NOTE 9 – COMMITMENTS and CONTINGENCIES

Terminal Radio, Inc. 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 the Organization. Management has determined this possibility is remote.

The Organization receives a significant amount of support from Corporation for Public Broadcasting (a federally funded agency) and the Alaska Corporation for Public Broadcasting, Inc. and the State of Alaska Public Broadcasting Commission. These organizations receive their monies (directly and indirectly, respectively) from the federal and state governments, therefore any changes in federal or state funding may have an impact on the Organization's ability to obtain support from one or the other of these agencies and could affect the Organization's ability to provide for the educational, cultural and informational needs of the large geographical area it serves.

NOTE 10 – GAMING ACTIVITY

KCHU 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, 2018 and 2017, is as follows:

	2018	2017
Gross Gaming Receipts	\$ 10,224	\$ 22,031
Less: Prize Payouts and taxes	(173)	(1,947)
Net Gaming Revenue	<u>\$ 10,051</u>	<u>\$ 20,048</u>

See Independent Auditor's Report

TERMINAL RADIO, INC.
AUDITED FINANCIAL STATEMENTS
JUNE 30, 2018 and 2017

NOTE 11 – RELATED PARTY TRANSACTIONS

During 2018, a board member processed payroll for the Organization with the approval of the full board of directors. The transaction is reasonable in scope and is at arms-length. As of June 30, 2018, expenses totaling \$24,854 have been paid to the related party.

NOTE 12 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through February 13, 2019, that date which the financial statements were available for issue. No events were identified that would require disclosure according to generally acceptable accounting principles.