

SILAKKUAGVIK COMMUNICATIONS, INC.
FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2019 and 2018
TOGETHER WITH INDEPENDENT AUDITOR'S REPORT



INDEPENDENT AUDITOR'S REPORT

Board of Directors
Silakkuagvik Communications, Inc.
Barrow, AK

Report on the Financial Statements

We have audited the accompanying financial statements of Silakkuagvik Communications, Inc., a nonprofit corporation, which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, 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 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 Silakkuagvik Communications, Inc. as of June 30, 2019 and 2018, 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.

Elgee Rehfeld

November 19, 2019

SILAKKUAGVIK COMMUNICATIONS, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 421,461	\$ 415,692
Grants and other receivables	2,043	24,031
Total current assets	<u>423,504</u>	<u>439,723</u>
Property and equipment, net	<u>261,924</u>	<u>293,490</u>
Total assets	<u>\$ 685,428</u>	<u>\$ 733,213</u>
LIABILITIES AND NET ASSETS:		
Current liabilities:		
Accounts payable	\$ 30,397	\$ 43,518
Accrued annual leave	15,744	14,145
Deferred revenue	600	7,912
Total liabilities	<u>46,741</u>	<u>65,575</u>
Net assets:		
Without donor restrictions:		
Invested in property and equipment	261,924	293,490
Undesignated	376,763	374,148
Total net assets without donor restrictions	<u>638,687</u>	<u>667,638</u>
Total liabilities and net assets	<u>\$ 685,428</u>	<u>\$ 733,213</u>

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

SILAKKUAGVIK COMMUNICATIONS, INC.

STATEMENTS OF ACTIVITIES

For the Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Changes in net assets without donor restrictions:		
SUPPORT:		
In-kind contributions	\$ 117,768	\$ 115,319
Membership and donations	<u>150,495</u>	<u>171,997</u>
Total support	<u>268,263</u>	<u>287,316</u>
REVENUES:		
State and local grants	233,488	282,511
Corporation for public broadcasting grants	202,983	193,600
Underwriting	74,987	119,693
Other revenue	<u>8,388</u>	<u>1,408</u>
Total revenues	<u>519,846</u>	<u>597,212</u>
Total revenues and support without donor restrictions	<u>788,109</u>	<u>884,528</u>
EXPENSES:		
PROGRAM SERVICES:		
Technical and broadcasting	156,335	153,437
Programming and production	<u>314,575</u>	<u>300,032</u>
Total program services	<u>470,910</u>	<u>453,469</u>
SUPPORTING SERVICES:		
General and administrative	226,280	222,632
Fundraising and member development	<u>119,870</u>	<u>140,380</u>
Total supporting services	<u>346,150</u>	<u>363,011</u>
Total expenses	<u>817,060</u>	<u>816,480</u>
Increase (decrease) in net assets without donor restrictions	(28,951)	68,048
NET ASSETS, Beginning of Year	<u>667,638</u>	<u>599,590</u>
NET ASSETS, End of Year	<u><u>\$ 638,687</u></u>	<u><u>\$ 667,638</u></u>

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

SILAKKUAGVIK COMMUNICATIONS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2019

	<u>Program Services</u>			<u>Supporting Services</u>		<u>Total Program and Supporting Services Expenses 2019</u>
	<u>Technical and Broadcasting</u>	<u>Programming and Production</u>	<u>Total Program Services</u>	<u>General and Administrative</u>	<u>Fundraising and Member Development</u>	
Direct expenses:						
Salaries and related expenses	\$ -	\$ 143,522	\$ 143,522	\$ 87,639	\$ 64,690	\$ 295,851
Professional fees	27,773	53,264	81,037	64,249	-	145,286
Transmission expense	112,943	-	112,943	-	-	112,943
Occupancy	-	39,682	39,682	24,229	17,890	81,801
Depreciation	-	24,196	24,196	14,774	10,908	49,878
Other expenses	-	-	-	18,611	25,043	43,654
Acquisitions expense	-	43,581	43,581	-	-	43,581
Travel and transportation	10,651	10,330	20,981	2,165	1,339	24,485
Supplies and equipment	3,485	-	3,485	8,229	-	11,714
Postage and shipping	-	-	-	2,799	-	2,799
Dues and subscriptions	-	-	-	2,685	-	2,685
Rental and maintenance of equipment	1,483	-	1,483	900	-	2,383
Total direct expenses	<u>\$ 156,335</u>	<u>\$ 314,575</u>	<u>\$ 470,910</u>	<u>\$ 226,280</u>	<u>\$ 119,870</u>	<u>\$ 817,060</u>

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

SILAKKUAGVIK COMMUNICATIONS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2018

	<u>Program Services</u>			<u>Supporting Services</u>		<u>Total Program and Supporting Services Expenses 2018</u>
	<u>Technical and Broadcasting</u>	<u>Programming and Production</u>	<u>Total Program Services</u>	<u>General and Administrative</u>	<u>Fundraising and Member Development</u>	
Direct expenses:						
Salaries and related expenses	\$ -	\$ 144,223	\$ 144,223	\$ 89,091	\$ 66,268	\$ 299,582
Transmission expense	119,990	-	119,990	-	-	119,990
Professional fees	16,712	18,749	35,461	71,397	-	106,858
Occupancy	-	49,346	49,346	22,674	30,485	102,506
Depreciation	-	27,790	27,790	12,769	17,168	57,728
Acquisitions expense	-	47,226	47,226	-	-	47,226
Other expenses	-	-	-	12,781	21,217	33,998
Travel and transportation	7,532	12,697	20,229	3,069	5,241	28,539
Supplies and equipment	7,815	-	7,815	5,614	-	13,429
Dues and subscriptions	-	-	-	2,440	-	2,440
Rental and maintenance of equipment	1,388	-	1,388	908	-	2,296
Postage and shipping	-	-	-	1,888	-	1,888
Total direct expenses	<u>\$ 153,437</u>	<u>\$ 300,032</u>	<u>\$ 453,469</u>	<u>\$ 222,632</u>	<u>\$ 140,380</u>	<u>\$ 816,480</u>

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

SILAKKUAGVIK COMMUNICATIONS, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash inflows from operations:		
Cash received from grants and government contracts	\$ 429,159	\$ 451,961
Cash received from contributions and fundraising	150,495	287,316
Cash received from underwriting	74,987	119,693
Cash received from other sources	30,376	1,408
Cash outflows from operations:		
Cash paid to employees	(294,252)	(296,557)
Cash paid to suppliers	(366,073)	(427,791)
Cash paid to other sources	-	(19,204)
Net cash provided by (used for) operating activities	24,692	116,826
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(18,923)	(71,006)
Net cash used for investing activities	(18,923)	(71,006)
Change in cash and cash equivalents	5,769	45,820
Cash and cash equivalents - beginning of year	415,692	369,872
Cash and cash equivalents - end of year	\$ 421,461	\$ 415,692

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

SILAKKUAGVIK COMMUNICATIONS, INC.

NOTES TO THE FINANCIAL STATEMENTS

Years Ended June 30, 2019 and 2018

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

KBRW Radio is owned and operated by Silakkuagvik Communications, Inc. (the Organization), a nonprofit corporation, incorporated October 11, 1974. KBRW Radio is located in Barrow, Alaska, and began its on-air operation December 22, 1975. The Organization is a public broadcasting station and receives a significant amount of its support from the Alaska Public Broadcasting Commission, the Corporation for Public Broadcasting, the North Slope Borough, and from membership revenues, underwriting and other contributions from businesses and individuals in the North Slope region. KBRW broadcasts on AM and FM signals.

Programming and Production

The Organization provides quality non-commercial news and locally valued programming which features local voices, fact-based journalism, community service, and emergency alerting.

Technical and Broadcasting

The Organization's technical products are radio and television broadcast signals, as well as digital content on the web. The Organization's stations produce AM and FM broadcast services.

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Basis of Presentation

The financial statements of the Organization have been prepared in accordance with U.S. generally accepted accounting principles (US GAAP), which require the Organization to report information regarding its financial position and activities according to the following net asset classifications:

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 Organization. These net assets may be used at the discretion of the Organization's management and the board of directors.

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 Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities.

SILAKKUAGVIK COMMUNICATIONS, INC.

NOTES TO THE FINANCIAL STATEMENTS

Classification of Transactions

All revenues are reported as increases in net assets without donor restrictions in the statements of activities unless the donor specified the use of the related resources for a particular purpose or in a future period. The Organization also classifies donor restricted amounts as unrestricted if it satisfied the restriction in the same fiscal year in which the support was received. All expenses and net losses are reported as decreases in net assets without donor restrictions.

Revenue Recognition

The Organization follows the guidance of FASB ASC 958-605 *Revenue Recognition* to determine whether its federal, state or other grant programs are contributions or exchange transactions for purposes of presentation in the accompanying financial statements. Grant funds are deemed to be earned and reported as revenues when the Organization has incurred expenditures in compliance with the specific restrictions. Such amounts received but not yet earned are reported as deferred revenue. Contributions are recognized in the period received.

Revenue from program underwriting is recorded on a pro rata basis for the period covered and for production underwriting on an estimated percentage-of-completion basis. Unearned underwriting revenues are reported as deferred revenue in the statement of financial position. Management evaluates underwriting receivables for collectability on a periodic basis. No allowance for uncollectible accounts has been recorded in the financial statements.

Donated Services and Equipment

Donated services are recognized as contributions in accordance with FASB ASC 958-605-25-2 through 25-5 *Contributions Received*, and FASB ASC 958-605-25-16 through 25-17 *Contributed Services*, if the services (a) create or enhance non-financial assets or (b) require special skills, are performed by people possessing those skills, and would otherwise be purchased by the Organization.

Individuals volunteer their time and assist the Organization with professional services. Donated professional services, meeting the definition of FASB ASC 958-605-25-16 through 25-17 as described above, are recorded as revenue and expense in the accompanying statement of activities as donated services at estimated fair values based upon standard valuation rates and job classifications. Donated time not meeting the criteria is not reflected in the financial statements.

Contributed equipment is recorded as contributions at estimated fair value on the date of donation and is reported as an increase in the unrestricted net assets unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use, if any, are reported as net assets with donor restrictions.

Contributions Receivable

The Organization engages in an annual fundraising campaign manifested by offering special radio programs accompanied by on-air and mail fundraising appeals. These appeals encourage supporters, both individuals and organizations, to provide financial contributions to the Organization for enhancement of program offerings and other operating expenses. Contributions receivable are recorded at their estimated fair market value at the time the associated pledge was made. Management has determined all accounts to be collectible as of June 30, 2019 and 2018; therefore an allowance for doubtful accounts has not been assessed. The Organization had contributions receivable of \$1,623 and \$30 at June 30, 2019 and 2018, respectively.

SILAKKUAGVIK COMMUNICATIONS, INC.

NOTES TO THE FINANCIAL STATEMENTS

Contributions and collected pledges are components of the unrestricted operating fund inasmuch as their usage is not limited to specific activities of the Organization. This usage is consistent with appeals for contributions and pledges.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities as of the date of the balance sheet, and revenue and expenses for the period. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all unrestricted, highly liquid investments with an original maturity of 90 days or less to be cash equivalents. Cash equivalents consist primarily of bank deposits and money market accounts.

Financial Instruments

The Organization's financial instruments consist primarily of cash, temporary investments, grant, and other receivables, none of which are held for trading purposes. The Organization's estimate of the fair value of all financial instruments does not differ materially from the carrying value reported in the accompanying statements of financial position.

Property and Equipment

Property and equipment are recorded at cost or, in the case of donated property, at estimated fair value. Purchases of assets with an expected useful life in excess of two years and in an amount in excess of \$1,000 are generally capitalized and depreciated. Purchases not meeting this policy are expensed. Depreciation is calculated using the straight-line method over the estimated useful lives of the individual assets, which range from 5 to 35 years.

Functional Allocation of Expenses

The costs of providing the Organization's various programs and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses that can be identified with a specific program or support service are charged directly to that program or support service. Functional expenses have been allocated between program service and supporting service based on an analysis of personnel time for the related activities. Expenses for program services are segregated from management and general expenses. Costs common to multiple functions have been allocated among the various functions benefitted using a reasonable allocation method that is consistently applied, as follows:

- Occupancy costs and depreciation are allocated based on each function's share of salaries.

Income Taxes

The Organization was incorporated under the laws of the State of Alaska as a nonprofit corporation and is exempt from income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2). However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business

SILAKKUAGVIK COMMUNICATIONS, INC.

NOTES TO THE FINANCIAL STATEMENTS

income. There was no required provision for income taxes for the fiscal years ended June 30, 2019 or 2018. The Organization follows the provisions of FASB ASC 740 *Income Taxes* and management believes that it has appropriate support for any tax positions taken. The Organization's federal income tax returns (Form 990) are subject to possible examination by the Internal Revenue Service until the expiration of the related statutes of limitations on those tax returns, which, in general, have a three-year statute of limitations.

Change in Accounting Principles

The Organization implemented Financial Accounting Standards Board (FASB) ASU No. 2016-14 "Presentation of Financial Statements of Not-for-Profit Entities" in the current year, applying the changes retrospectively. The new standard changes the following aspects of the financial statements:

- Previously temporarily and permanently restricted net asset classes have been combined into a single net asset class called net assets with donor restrictions.
- The unrestricted net asset class has been renamed net assets without donor restrictions.
- The format of the statements of cash flows has changed to the direct method of reporting cash flows from operations, which management believes is more understandable for the users of its financial statements.
- The financial statements include a disclosure about liquidity and availability of resources (Note 2).

The changes had no effect on net assets at June 30, 2019.

Recent Accounting Pronouncements

Management is evaluating the impact of the recent accounting pronouncements listed below on the Organization's financial position, results of operations, or cash flows. The impact of adoption has not been fully determined. Other accounting standards that have been issued or proposed by FASB, or other standards-setting bodies, not listed below, will also be evaluated prior to their effective date.

ASU 2016-02

In February 2016, the FASB issued ASU No. 2016-02, "*Leases (Topic 842)*." The amendments in this update will supersede much of the existing authoritative guidance for leases. This guidance requires lessees to recognize right-of-use assets and liabilities on their balance sheet for all leases with terms longer than twelve months. The amendments in ASU 2016-02 are effective for fiscal years beginning after December 15, 2019 with early application permitted. The Organization plans to adopt ASU 2016-02 in its fiscal year ended June 30, 2021.

ASU 2015-14

In August 2015, the FASB issued ASU No. 2015-14, "*Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*" which modified ASU No. 2014-09, "*Revenue from Contracts with Customers (Topic 606)*" which was issued by the FASB in May 2014. These standards replace existing revenue recognition rules with a comprehensive revenue measurement and recognition standard and expanded disclosure requirements. ASU 2015-14 is effective for not-for-profit entities annual reporting periods beginning after December 15, 2018. The amendment is required to be applied retrospectively and all entities can adopt the standard as early as the original effective date, annual periods beginning after December 15, 2016. The Organization plans to adopt ASU 2015-14 in its fiscal year ended June 30, 2020.

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NOTES TO THE FINANCIAL STATEMENTS

ASU 2016-18

In November 2016, the FASB issued ASU No. 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash." This ASU provides specific guidance on the cash flow classification and presentation of changes in restricted cash and cash equivalents. The amendments require that a statement of cash flows explain the change during the period in the total of cash and cash equivalents and restricted cash and cash equivalents. ASU 2016-18 is effective for not-for-profit entities for financial statements issued for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after 2019. The amendment is required to be applied retrospectively and early adoption is permitted. The Organization plans to adopt ASU 2016-18 in its fiscal year ended June 30, 2020.

ASU 2018-08

In June 2018, the FASB issued ASU No. 2018-08, "Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made." This ASU clarifies and improves the scope and the accounting guidance for contributions received and contributions made to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions), or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. ASU 2018-08 is effective for entities for financial statements issued for fiscal years beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2018. The Organization plans to adopt ASU 2018-08 in its fiscal year ended June 30, 2020.

Subsequent Events

The Organization has evaluated subsequent events through the date of the Independent Auditor's Report, which is commensurate with the date the financial statements were available to be issued.

Reclassification

Certain amounts presented for the prior period have been reclassified to conform to the current year presentation.

NOTE 2 – LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditures without donor or other restriction limiting their use, within one year of June 30, 2019:

Financial assets at year-end*:	
Cash and cash equivalents	\$ 421,461
Accounts receivable	<u>2,043</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 423,504</u>

*Total assets, less nonfinancial assets

SILAKKUAGVIK COMMUNICATIONS, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment at June 30 consist of the following:

	<u>2019</u>	<u>2018</u>
Broadcasting equipment	\$ 1,340,804	\$ 1,330,724
Buildings and improvements	1,057,373	1,048,530
Office furnishings and equipment	64,185	64,185
Vehicles	61,966	63,966
Land	<u>8,170</u>	<u>8,170</u>
Total property and equipment	2,532,498	2,515,575
Less: Accumulated depreciation	<u>(2,270,574)</u>	<u>(2,222,085)</u>
Total property and equipment, net	<u>\$ 261,924</u>	<u>\$ 293,490</u>

Depreciation expense for the fiscal years ending June 30, 2019 and 2018 were \$49,878 and \$57,728, respectively.

NOTE 4 – IN-KIND CONTRIBUTIONS

The Organization leases land at no cost from the City of Barrow and two Barrow businesses for its studio site, transmitter site, and satellite downlink site. The value of these leases are included in the financial statements as in-kind contributions. The Organization also benefited from volunteer services and other donations that were not recognized in the financial statements because they did not meet the criteria for recognition under accounting standards.

The value of non-cash contributions included in the financial statements for the years ended June 30 are as follows:

	<u>2019</u>	<u>2018</u>
UIC Real Estate Management, LLC – transmitter land lease	\$ 64,000	\$ 64,000
Alaska Public Broadcasting, Inc. – technical and administrative support	33,734	32,845
City of Barrow – studio land lease	12,000	12,000
Arctic Slope Telephone Association Corporation	8,034	2,074
North Slope Consulting	<u>-</u>	<u>4,400</u>
Total	<u>\$ 117,768</u>	<u>\$ 115,319</u>

NOTE 5 – CONCENTRATIONS AND CONTINGENCIES

Public Funding

A significant amount of the Organization’s funding comes from operating grants awarded by the Corporation for Public Broadcasting, the State of Alaska, the City of Barrow, and the North Slope Borough. The Organization also generates a significant portion of its annual operating budget from local underwriting, memberships, and donations. A significant decline in funding from these sources could have a material impact on the Organization’s operations.

SILAKKUAGVIK COMMUNICATIONS, INC.

NOTES TO THE FINANCIAL STATEMENTS

Grants and Contracts

Expenditures made pursuant to the grants and contracts may be subject to additional audits by government agencies or their representatives. Certain grant amounts may not have been audited by the grantor agencies. Accordingly, adjustments of amounts received from grants and contracts could result if the grants and contracts are adjusted by such agencies. Management believes the material provisions of the grant awards have been accommodated and that no significant liability will result from the foregoing matters. Accordingly, no liabilities for amounts which may be payable have been recorded in the accompanying financial statements.

Excess Cash Balances

The Organization has concentrated its credit risk for cash by maintaining deposits in financial institutions, which may at times exceed amounts covered by insurance provided by the United States Federal Deposit Insurance Corporation (FDIC). The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk to cash.