Consolidated Financial Statements
June 30, 2018 and 2017

# Spokane Public Radio, Inc.

**Independent Auditor's Report**

To the Board of Directors
Spokane Public Radio, Inc.
Spokane, Washington

**Report on the Financial Statements**
We have audited the accompanying consolidated financial statements of Spokane Public Radio, Inc. (a non-profit organization), which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

**Management's Responsibility for the Financial Statements**
Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Spokane Public Radio, Inc. as of June 30, 2018 and 2017, 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.

Eide Bailly LLP

Spokane, Washington
October 24, 2018

| | 2018 | 2017 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ 518,659 | $ 483,954 |
| Certificate of deposit | 10,123 | 10,108 |
| Promises to give, net | | |
| Subscription and membership | 52,610 | 51,560 |
| Capital campaign restricted for long-term purposes | 50,221 | 86,347 |
| Underwriting receivable | 36,501 | 29,130 |
| Prepaid expenses | 1,264 | 15,609 |
| Beneficial interest in assets held by community foundation | 20,091 | - |
| Property and equipment, net | 4,462,718 | 4,705,188 |
| Cash surrender value of life insurance policy | 22,486 | 22,225 |
| | $ 5,174,673 | $ 5,404,121 |
| **Liabilities and Net Assets** | | |
| Accounts payable | $ 4,041 | $ 5,717 |
| Accrued expenses | 62,402 | 67,585 |
| Advance from related party | 140,000 | 140,000 |
| Notes payable | 518,881 | 578,757 |
| Total liabilities | 725,324 | 792,059 |
| **Net Assets** | | |
| Unrestricted | | |
| Undesignated | 3,799,311 | 3,891,514 |
| Noncontrolling interest | 455,654 | 475,857 |
| Temporarily restricted | 194,384 | 244,691 |
| Total net assets | 4,449,349 | 4,612,062 |
| | $ 5,174,673 | $ 5,404,121 |

| | Unrestricted | Temporarily Restricted | Total |
|---|---|---|---|
| **Revenue, Support, and Gains** | | | |
| Corporation for Public Broadcasting | | | |
| Community Service Grant (CSG) | $ 208,104 | $ - | $ 208,104 |
| Foundation grants | 16,000 | - | 16,000 |
| Total grants | 224,104 | - | 224,104 |
| Gross special events revenue | 103,888 | - | 103,888 |
| Less cost of direct benefits to donors | (24,971) | - | (24,971) |
| Net special events revenue | 78,917 | - | 78,917 |
| Subscriptions and memberships | 1,029,951 | 42,320 | 1,072,271 |
| Underwriting and services | 379,893 | | 379,893 |
| Capital campaign | 15,917 | - | 15,917 |
| Donated professional services and contributions | 128,153 | - | 128,153 |
| Donated equipment | 2,158 | - | 2,158 |
| Interest and royalty income | 11,322 | - | 11,322 |
| Rent | 8,066 | - | 8,066 |
| Other income | 35,863 | - | 35,863 |
| Net assets released from restrictions | 92,627 | (92,627) | - |
| Total revenue, support, and gains | 2,006,971 | (50,307) | 1,956,664 |
| **Expenses** | | | |
| Program services expense | | | |
| Programming, public relations, and program guide | 1,200,851 | - | 1,200,851 |
| Engineering and equipment | 334,114 | - | 334,114 |
| Total program expenses | 1,534,965 | - | 1,534,965 |
| Supporting services expense | | | |
| Management and general | 323,972 | - | 323,972 |
| Fundraising and membership development | 252,438 | - | 252,438 |
| Total supporting services expenses | 576,410 | - | 576,410 |
| Total expenses | 2,111,375 | - | 2,111,375 |
| **Change in Net Assets** | (104,404) | (50,307) | (154,711) |
| **Noncontrolling Interest** | | | |
| Distributions | (8,002) | - | (8,002) |
| **Net Assets, Beginning of Year** | 4,367,371 | 244,691 | 4,612,062 |
| **Net Assets, End of Year** | $ 4,254,965 | $ 194,384 | $ 4,449,349 |

| | Unrestricted | Temporarily Restricted | Total |
|---|---|---|---|
| **Revenue, Support, and Gains** | | | |
| Corporation for Public Broadcasting | | | |
| Community Service Grant (CSG) | $ 308,580 | $ - | $ 308,580 |
| Foundation grants | 6,000 | - | 6,000 |
| Total grants | 314,580 | - | 314,580 |
| Gross special events revenue | 93,705 | - | 93,705 |
| Less cost of direct benefits to donors | (34,302) | - | (34,302) |
| Net special events revenue | 59,403 | - | 59,403 |
| Subscriptions and memberships | 950,858 | 41,252 | 992,110 |
| Underwriting and services | 379,863 | - | 379,863 |
| Capital campaign | 14,458 | - | 14,458 |
| Donated professional services and contributions | 116,905 | - | 116,905 |
| Donated equipment | 5,068 | - | 5,068 |
| Interest and royalty income | 9,263 | - | 9,263 |
| Rent | 6,900 | - | 6,900 |
| Other income | 251 | - | 251 |
| Gain on sale of property and equipment | 295 | - | 295 |
| Net assets released from restrictions | 125,053 | (125,053) | - |
| Total revenue, support, and gains | 1,982,897 | (83,801) | 1,899,096 |
| **Expenses** | | | |
| Program services expense | | | |
| Programming, public relations, and program guide | 1,172,418 | - | 1,172,418 |
| Engineering and equipment | 344,916 | - | 344,916 |
| Total program expenses | 1,517,334 | - | 1,517,334 |
| Supporting services expense | | | |
| Management and general | 336,937 | - | 336,937 |
| Fundraising and membership development | 238,185 | - | 238,185 |
| Total supporting services expenses | 575,122 | - | 575,122 |
| Total expenses | 2,092,456 | - | 2,092,456 |
| **Change in Net Assets** | (109,559) | (83,801) | (193,360) |
| **Noncontrolling Interest** | | | |
| Distributions | (8,000) | - | (8,000) |
| **Net Assets, Beginning of Year** | 4,484,930 | 328,492 | 4,813,422 |
| **Net Assets, End of Year** | $ 4,367,371 | $ 244,691 | $ 4,612,062 |

| | Program Services | | | | | |
|---|---|---|---|---|---|---|
| | Programming, Public Relations and Program Guide | Engineering and Equipment | Total | Management and General | Fundraising and Membership Development | Total |
| Payroll and employee benefits | $ 406,318 | $ 68,901 | $ 475,219 | $ 235,436 | $ 178,179 | $ 888,834 |
| Professional services | 89,753 | 19,493 | 109,246 | 49,804 | 16,850 | 175,900 |
| Supplies and postage | 5,651 | 2,674 | 8,325 | 3,248 | 10,064 | 21,637 |
| Utilities and telephone | 28,796 | 47,217 | 76,013 | 5,450 | 5,450 | 86,913 |
| Rental space | 15,676 | 24,774 | 40,450 | - | 414 | 40,864 |
| Repairs and maintenance | 3,952 | 28,910 | 32,862 | 1,928 | - | 34,790 |
| Network programming fees | 482,107 | - | 482,107 | - | - | 482,107 |
| Marketing and development | 38,742 | 3,818 | 42,560 | 2,553 | 4,149 | 49,262 |
| Insurance | 28,245 | 398 | 28,643 | 2,607 | - | 31,250 |
| Bank fees | 25 | 44 | 69 | 3,293 | 14,540 | 17,902 |
| Bad debt | - | - | - | - | 385 | 385 |
| Printing | - | - | - | - | 972 | 972 |
| Direct fundraising costs | - | - | - | - | 26,875 | 26,875 |
| Depreciation | 87,665 | 131,227 | 218,892 | 16,172 | 16,050 | 251,114 |
| Interest | 11,999 | 5,696 | 17,695 | 3,000 | 3,000 | 23,695 |
| Other | 1,922 | 962 | 2,884 | 481 | 481 | 3,846 |
| Total expenses by function | 1,200,851 | 334,114 | 1,534,965 | 323,972 | 277,409 | 2,136,346 |
| Less expenses included with revenues on the statement of activities | | | | | | |
| Cost of direct benefits to donors | - | - | - | - | (24,971) | (24,971) |
| Total expenses included in the expense section on the statemnet of activities | $ 1,200,851 | $ 334,114 | $ 1,534,965 | $ 323,972 | $ 252,438 | $ 2,111,375 |

| | Program Services | | | | | |
|---|---|---|---|---|---|---|
| | Programming, Public Relations and Program Guide | Engineering and Equipment | Total | Management and General | Fundraising and Membership Development | Total |
| Payroll and employee benefits | $ 392,618 | $ 67,713 | $ 460,331 | $ 240,094 | $ 167,026 | $ 867,451 |
| Professional services | 73,392 | 26,925 | 100,317 | 56,929 | 17,551 | 174,797 |
| Supplies and postage | 8,693 | 1,249 | 9,942 | 4,204 | 9,698 | 23,844 |
| Utilities and telephone | 22,085 | 49,075 | 71,160 | 462 | 5,389 | 77,011 |
| Rental space | 16,336 | 21,344 | 37,680 | - | 400 | 38,080 |
| Repairs and maintenance | 8,690 | 25,777 | 34,467 | 408 | - | 34,875 |
| Network programming fees | 483,838 | - | 483,838 | - | - | 483,838 |
| Marketing and development | 36,331 | 4,543 | 40,874 | 5,381 | 2,911 | 49,166 |
| Insurance | 21,929 | 1,431 | 23,360 | 5,288 | - | 28,648 |
| Bank fees | 25 | 25 | 50 | 2,860 | 14,504 | 17,414 |
| Printing | - | - | - | - | 1,478 | 1,478 |
| Direct fundraising costs | - | - | - | - | 32,324 | 32,324 |
| Depreciation | 88,726 | 136,956 | 225,682 | 16,371 | 16,268 | 258,321 |
| Interest | 14,021 | 7,011 | 21,032 | 3,505 | 3,505 | 28,042 |
| Other | 5,734 | 2,867 | 8,601 | 1,435 | 1,433 | 11,469 |
| Total expenses by function | 1,172,418 | 344,916 | 1,517,334 | 336,937 | 272,487 | 2,126,758 |
| Less expenses included with revenues on the statement of activities | | | | | | |
| Cost of direct benefits to donors | - | - | - | - | (34,302) | (34,302) |
| Total expenses included in the expense section on the statemnet of activities | $ 1,172,418 | $ 344,916 | $ 1,517,334 | $ 336,937 | $ 238,185 | $ 2,092,456 |

| | 2018 | 2017 |
|---|---|---|
| Operating Activities | | |
| Change in net assets | $ (154,711) | $ (193,360) |
| Adjustments to reconcile change in net assets to net cash from operating activities | | |
| Depreciation | 251,114 | 258,321 |
| Imputed interest expense | 15,232 | 15,397 |
| Gain on sale of property and equipment | - | (295) |
| Contributed property and equipment capitalized | (2,158) | (5,068) |
| Change in beneficial interest in assets held by community foundation | 444 | - |
| Contributions restricted to building project | (5,159) | (14,458) |
| Cash surrender value of donated life insurance policy | (261) | (853) |
| Changes in operating assets and liabilities | | |
| Promises to give, net | (1,050) | 18,297 |
| Underwriting receivable | (7,371) | 21,244 |
| Prepaid expenses | 14,330 | (14,747) |
| Accounts payable | (1,676) | (4,627) |
| Accrued expenses | (5,183) | (2,291) |
| Net Cash from Operating Activities | 103,551 | 77,560 |
| Investing Activities | | |
| Proceeds from sale of property and equipment | - | 295 |
| Maturity of certificate of deposit | 10,123 | 10,108 |
| Purchase of certificate of deposit | (10,123) | (10,108) |
| Purchase of property and equipment | (6,486) | (50,248) |
| Contributions to community foundation | (20,535) | - |
| Net Cash used for Investing Activities | (27,021) | (49,953) |
| Financing Activities | | |
| Collections of contributions restricted to building project | 41,285 | 64,565 |
| Distributions | (8,002) | (8,000) |
| Principal payments on notes payable | (75,108) | (282,217) |
| Net Cash used for Financing Activities | (41,825) | (225,652) |
| Net Change in Cash and Cash Equivalents | 34,705 | (198,045) |
| Cash and Cash Equivalents, Beginning of Year | 483,954 | 681,999 |
| Cash and Cash Equivalents, End of Year | $ 518,659 | $ 483,954 |
| Supplemental Disclosure of Cash Flow Information | | |
| Cash paid for interest | $ 8,464 | $ 12,645 |

## Note 1 - Principal Business Activity and Significant Accounting Policies

### Organization

Spokane Public Radio, Inc. (the Organization) is a Washington nonprofit organization operating three noncommercial public radio stations in Spokane, Washington (KPBZ-FM 90.3, KPBX-FM 91.1, and KSFC-FM 91.9). The stations serve parts of Eastern Washington, Northern Idaho, Western Montana, Eastern Oregon, and British Columbia, Canada, through ten full power radio repeater stations and three translator stations. Management estimates that the stations reach between sixty and seventy thousand listeners, based upon published radio listener surveys.

Spokane Public Radio, Inc. offers a variety of classical music, jazz, and blues, as well as current news and public affairs programming. Spokane Public Radio, Inc. is supported primarily by listener contributions, local business underwriting, foundation grants, and grants from the Corporation of Public Broadcasting for program activities.

### Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Spokane Public Radio, Inc. and its wholly owned subsidiary, SPR Manager, LLC, which owns an interest in SPR Landlord, LLC, and SPR Master Tenant, LLC. The consolidated entities are collectively referred to as “the Organization”. All significant intercompany accounts and transactions have been eliminated in the consolidated financial statements. SPR Manager, LLC, SPR Landlord, LLC, and SPR Master Tenant, LLC are for profit supporting organizations organized during October 2015 in connection with the financing, rehabilitation, and ownership of the Monroe firehouse property, which was completed and placed in service in October 2015 (Note 2).

The accompanying consolidated financial statements of the Organization have been prepared using the accrual method of accounting.

### Cash and Cash Equivalents

The Organization considers all cash and highly liquid financial instruments with original maturities of three months or less, and which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents.

The Organization’s policy is to invest cash in excess of operating requirements in income producing money market investments with high credit quality financial institutions. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds held at financial institutions. Management does not believe excess cash investments are exposed to any significant credit risk.

Certificates of deposit are recorded at cost, which approximates fair market value. The interest rate on the certificate is 0.35% and the CD will mature during 2019.

**Promises to Give**

The Organization records unconditional promises to give expected to be collected within one year at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statements of activities. Management determines the allowance for uncollectable promises to give based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give are written off when deemed uncollectable.

**Underwriting Receivable**

Underwriting receivable consists of amounts due under various underwriting contracts. Management determines the allowance for uncollectable accounts based on historical experience, an assessment of economic conditions, and a review of subsequent collections. No allowance for doubtful accounts was considered necessary at June 30, 2018 and 2017.

**Property and Equipment**

Property and equipment additions over $250 are recorded at cost, or if donated, at the fair value on the date of donation. Depreciation and amortization are computed using the straight-line method over their estimated useful lives ranging from two to twenty years. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any resulting gain or loss is included in the statements of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

The Organization reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the years ended June 30, 2018 and 2017.

**Beneficial Interest in Assets Held by Community Foundation**

During 2018, the Organization established an endowment fund (the Fund) at Innovia Foundation (Innovia) and named itself as beneficiary. Under the agreement, if in the opinion of the Board of Trustees of Innovia distributions from the Fund become unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community served by Innovia, the income from the Fund can be disbursed for the benefit of the Organization’s member agencies if possible and practicable, as directed by the Trustees of Innovia. The Fund is held and invested by Innovia for the benefit of the Organization, and is reported at fair value in the statement of financial position, with changes in fair value recognized in the statement of activities. The Organization has access annually to the earnings of the fund and may request and receive additional distributions only with Board approval of both the Organization and Innovia.

**Net Assets**

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

*Unrestricted Net Assets* – Net assets available for use in general operations.

*Temporarily Restricted Net Assets* – Net assets subject to donor restrictions that may or will be met by expenditures or actions of the Organization and/or the passage of time.

The Organization reports contributions restricted by donors as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

*Permanently Restricted Net Assets* – Net assets whose use is limited by donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by action of the Organization. The restrictions stipulate that resources be maintained permanently but permit expending the income generated in accordance with the provisions of the agreements.

**Revenue and Revenue Recognition**

Revenue is recognized when earned. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met. Program underwriting revenue is recorded on a pro-rata basis over the period of the related underwriting agreement.

**Donated Services and In-Kind Contributions**

The value of contributed services meeting the requirements for recognition in the financial statements are recorded as revenue and expense when received. Contributed professional services and advertising are valued according to estimates provided by the donor (Note 10). In addition, other volunteers contribute significant amounts of time to the Organizations' program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation.

**Advertising Costs**

Advertising costs are expensed as incurred and were $38,851 and $34,473 during the years ended June 30, 2018 and 2017, respectively.

**Functional Allocation of Expenses**

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**Income Taxes**

Spokane Public Radio, Inc. is organized as a Washington nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3) and qualifying for the charitable contribution deduction under Section 170(b)(1)(A)(vi). Spokane Public Radio, Inc. has been determined not to be a private foundation under Section 509(a)(1) and is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, Spokane Public Radio, Inc. is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose. Spokane Public Radio, Inc. has determined that it is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

SPR Landlord, LLC and SPR Master Tenant, LLC are organized as for profit Washington limited liability companies. As a limited liability company, each entity's taxable income or loss is allocated to members in accordance with their formation documents. 90% of the income or loss attributable to SPR Landlord, LLC and 1% of the income or loss attributable to SPR Master Tenant, LLC is allocated to SPR Manager, LLC. The remaining income or loss is allocated to the noncontrolling interest. SPR Manager, LLC is organized as a for profit Washington limited liability company, but, for income tax purposes, has elected to be treated as a corporation. No current or deferred tax provision has been recorded in the consolidated financial statements as the corporation incurred losses during the fiscal years ended June 30, 2018 and 2017 and the timing of any tax benefit to be realized from the losses is uncertain.

The Organization evaluates its tax positions that have been taken or are expected to be taken on income tax returns to determine if an accrual is necessary for uncertain tax positions. As of June 30, 2018 and 2017, the unrecognized tax benefit accrual was zero. The Organization will recognize future accrued interest and penalties related to unrecognized tax benefits in income tax expense if incurred.

**Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and those differences could be material.

**Noncontrolling Interest**

Included in unrestricted net assets is the noncontrolling interest in SPR Master Tenant, LLC. The SPR Master Tenant, LLC noncontrolling interest represents its ownership of the firehouse property included in the consolidated financial statements. There are no liabilities included in the consolidated financial statements associated with SPR Master Tenant, LLC. A reconciliation of the net assets of SPR Master Tenant, LLC attributable to SPR Manger, LLC and the noncontrolling interest is as follows:

| | SPR Manager, LLC | Noncontrolling Interest | Total |
|---|---|---|---|
| Net assets at June 30, 2016 | $ 4,980 | $ 497,912 | $ 502,892 |
| SPR Master Tenant, LLC net loss | (95) | (14,055) | (14,150) |
| Distribution | - | (8,000) | (8,000) |
| Net assets at June 30, 2017 | 4,885 | 475,857 | 480,742 |
| SPR Master Tenant, LLC net loss | (111) | (12,201) | (12,312) |
| Distribution | - | (8,002) | (8,002) |
| Net assets at June 30, 2018 | $ 4,774 | $ 455,654 | $ 460,428 |

**Subsequent Events**

The Company has evaluated subsequent events through October 24, 2018, the date which the consolidated financial statements were available to be issued.

## Note 2 - Federal Historic Tax Credit Program

In connection with the construction of the Monroe firehouse property, the Organization obtained additional funding by utilizing the Federal Historic Tax Credit Program (FHTC). In September, 2015, as part of the process to monetize these credits, certain for-profit limited liability companies (LLCs) were formed to hold and lease or sublease the property. The LLC holding the property, SPR Landlord, LLC, is owned 90% by SPR Manager, LLC, an entity owned 100% by Spokane Public Radio, Inc., and 10% by SPR Master Tenant, LLC, an entity owned 99% by outside investors (Investors) and 1% by SPR Manager, LLC. SPR Manager, LLC, SPR Landlord, LLC, and SPR Master Tenant, LLC are collectively known as the “HTC Entities”. The various lease agreements between the entities ultimately result in Spokane Public Radio, Inc. leasing substantially all of the property from SPR Master Tenant, LLC under a sublease agreement.

The FHTC permits taxpayers to receive a credit against federal income taxes for making qualified rehabilitation expenditures (QRE) that were incurred in rehabilitating the Monroe firehouse. The HTC Entities were integrated into the FHTC transaction to generate qualified QREs that could then be sold to the Investors. By interposing the HTC Entities, the QREs and resulting tax credits are deemed for tax purposes to have been generated by a “for profit” entity and not by the nonprofit Spokane Public Radio, Inc., thus making them economically valuable to the Investors. In addition, the Investors have the right to require SPR Manager, LLC to purchase their entire interest in the property for the lesser of $4,000 or the appraised value of such interest after five years.

## Note 3 - Fair Value Measurements and Disclosures

During 2018, the Organization reported certain assets at fair value in the consolidated financial statements. Fair value is the price that would be received to sell an asset in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets that the Organization can access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly. These include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, inputs other than quoted prices that are observable for the asset, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset. In these situations, the Organization develops inputs using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to the Organization's assessment of the quality, risk or liquidity profile of the asset. The fair value of the Organization's beneficial interest in assets held by community foundation is based on the fair value of the investments as reported by the community foundation. These are considered to be Level 3 measurements.

The following table presents assets measured at fair value on a recurring basis at June 30, 2018 and 2017:

| | | Fair Value Measurements at Report Date Using | | | |
|---|---|---|---|---|---|
| | Total | Quoted Prices in Active Markets for Identical Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Investments Measured at NAV |
| Beneficial interest in assets held by community foundation | | | | | |
| June 30, 2018 | $ 20,091 | $ - | $ - | $ 20,091 | $ - |
| June 30, 2017 | $ - | $ - | $ - | $ - | $ - |

Below is a reconciliation of the beginning and ending balance of the beneficial interest in assets held by community foundation measured at fair value on a reoccurring basis using significant unobservable inputs (Level 3) for the years ended June 30, 2018 and 2017:

| | |
|---|---|
| Balance, June 30, 2017 | $ - |
| Contributions | 20,535 |
| Unrealized losses | (420) |
| Management fees | (24) |
| Balance, June 30, 2018 | $ 20,091 |

## Note 4 - Promises to Give

Unconditional promises to give are estimated to be collected as follows at June 30, 2018 and 2017:

| | 2018 | 2017 |
|---|---|---|
| Receivable due in less than one year | $ 127,226 | $ 151,887 |
| Receivable due in one to five years | 848 | 12,323 |
| Total unconditional promises to give | 128,074 | 164,210 |
| Less discount to net present value at 4% | (2,033) | (3,478) |
| Less allowance for uncollectable promises to give | (23,210) | (22,825) |
| | $ 102,831 | $ 137,907 |
| Promises to give | | |
| Subscription and membership | $ 52,610 | $ 51,560 |
| Capital campaign restricted for long-term purposes | 50,221 | 86,347 |
| | $ 102,831 | $ 137,907 |

Promises to give at June 30, 2018 and 2017 included $0 and $30,800, respectively, from members of the Board of Directors.

## Note 5 - Property and Equipment

Property and equipment consists of the following at June 30, 2018 and 2017:

| | 2018 | 2017 |
|---|---|---|
| Broadcast and production equipment | $ 1,837,574 | $ 1,831,143 |
| Furniture and fixtures | 106,771 | 104,613 |
| Transmitter buildings and other | 32,939 | 32,939 |
| Leasehold improvements | 12,153 | 12,153 |
| Vehicles | 6,614 | 6,614 |
| Monroe firehouse | 4,159,578 | 4,159,578 |
| | 6,155,629 | 6,147,040 |
| Less accumulated depreciation | (1,950,888) | (1,699,829) |
| | 4,204,741 | 4,447,211 |
| Monroe firehouse land | 116,653 | 116,653 |
| Property adjacent to Monroe firehouse | 141,324 | 141,324 |
| | $ 4,462,718 | $ 4,705,188 |

At June 30, 2018 and 2017, the Monroe firehouse property includes capitalized interest of $42,544.

Liens are held by the U.S. Government on generators and broadcasting and studio equipment purchased with certain grant funds in the amount of $246,156, which includes a lien applied for in August 2012. The liens cover ten-year periods following purchase of the equipment and expire between 2019 and 2021.

## Note 6 - Advance from Related Party

In November 2014, an individual related to a member of the board of directors advanced $140,000 to the Organization to fund the acquisition of the property adjacent to the Monroe firehouse. There are no defined repayment terms for this advance. For the years ended June 30, 2018 and 2017, no payments were made on the advance.

## Note 7 - Notes Payable

Notes payable consist of the following at June 30, 2018 and 2017:

| | 2018 | 2017 |
|---|---|---|
| Note payable to Washington Trust Bank, due in monthly installments of $3,823, including interest at 4.5%, to September 15, 2020, secured by equipment and guaranteed by an individual related to a member of the Board of Directors | $ 171,827 | $ 209,230 |
| Noninterest bearing note payable, $433,607 and $471,311 principal amount at June 30, 2018 and 2017, respectively, less unamortized discount based on imputed interest rate of 4.0%, due in quarterly installments of $9,426, to October 2029, to an individual related to a member of the Board of Directors, secured by real property[A] | 347,054 | 369,527 |
| | $ 518,881 | $ 578,757 |

[A]For the years ended June 30, 2018 and 2017, imputed interest related to the note of $15,232 and $15,397, respectively, was expensed. Unamortized discount on the note of $86,553 and $101,784 is included in temporarily restricted net assets at June 30, 2018 and 2017, respectively.

Future maturities of notes payable are as follows:

| Years Ending June 30, | Amount |
|---|---|
| 2019 | $ 63,158 |
| 2020 | 65,931 |
| 2021 | 118,380 |
| 2022 | 27,289 |
| 2023 | 28,397 |
| Thereafter | 215,726 |
| | $ 518,881 |

## Note 8 - Leases

The Organization leases translator and antenna systems under an operating lease expiring in 2024.

Future minimum lease payments are as follows:

| Years Ending June 30, | Amount |
|---|---|
| 2019 | $ 5,400 |
| 2020 | 5,400 |
| 2021 | 5,400 |
| 2022 | 5,400 |
| 2023 | 5,400 |
| Thereafter | 5,400 |
| | $ 32,400 |

Rent expense for the years ended June 30, 2018 and 2017 totaled $40,864 and $38,080, respectively.

## Note 9 - Restricted Net Assets

Temporarily restricted net assets at June 30, 2018 and 2017, consist of:

| | 2018 | 2017 |
|---|---|---|
| Promises to give, net | | |
| Subscription and membership | $ 52,610 | $ 51,560 |
| Capital campaign restricted for long-term purposes | 50,221 | 86,347 |
| Restricted by donor for purpose | 5,000 | 5,000 |
| Noninterest bearing note payable discount | 86,553 | 101,784 |
| | $ 194,384 | $ 244,691 |

Net assets were released from temporarily restricted net assets when capital campaign promises and subscription and membership promises to give were collected, donor purpose was satisfied, and interest expense was recognized related to noninterest bearing note payable discount as of June 30, 2018 and 2017 in the amounts of $92,627 and $125,053, respectively.

## Note 10 - Donated Professional Services and Materials

Donated professional services and materials received during the years ended June 30, 2018 and 2017 are as follows:

| June 30, 2018 | Program Services | Management and General | Fundraising | Total |
|---|---|---|---|---|
| Accounting | $ - | $ 16,000 | $ - | $ 16,000 |
| Computer services | 8,878 | - | - | 8,878 |
| Other professional | 690 | 3,199 | - | 3,889 |
| Legal fees | - | 1,012 | - | 1,012 |
| Mailing | 2,000 | - | - | 2,000 |
| Facility rental | 8,031 | - | - | 8,031 |
| Janitorial | 5,387 | - | - | 5,387 |
| Advertising | 30,742 | - | - | 30,742 |
| Production engineering | 52,214 | - | - | 52,214 |
| | $ 107,942 | $ 20,211 | $ - | $ 128,153 |

| June 30, 2017 | Program Services | Management and General | Fundraising | Total |
|---|---|---|---|---|
| Accounting | $ - | $ 21,650 | $ - | $ 21,650 |
| Computer services | 7,095 | - | - | 7,095 |
| Other professional | 575 | 789 | - | 1,364 |
| Professional dues | - | 953 | - | 953 |
| Mailing | 3,340 | 1,074 | - | 4,414 |
| Facility rental | 8,031 | - | - | 8,031 |
| Janitorial | 5,318 | - | - | 5,318 |
| Advertising | 29,085 | - | - | 29,085 |
| Food | 1,266 | - | - | 1,266 |
| Production engineering | 37,729 | - | - | 37,729 |
| | $ 92,439 | $ 24,466 | $ - | $ 116,905 |

The Organization received approximately 3,300 and 4,100 hours of non-specified volunteer hours for the years ended June 30, 2018 and 2017, respectively, for which the value has not been recorded.

During the years ended June 30, 2018 and 2017, the Organization received and capitalized donations of computer software, engineering hardware, and speakers, valued at $2,158 and $5,068, respectively.

## Note 11 - Employee Benefits

Spokane Public Radio, Inc. sponsors a tax-deferred pension plan qualified under Section 403(b) of the Internal Revenue Code covering substantially all permanent employees. Employees can defer up to 20% of their annual compensation into their plan accounts. In addition, Spokane Public Radio, Inc. sponsors a tax-deferred Simplified Employee Pension Plan (SEP) covering all permanent employees. The plan provides that employees who have attained age 21 may contribute up to 15% of their earnings to the SEP, up to the maximum contribution allowed by the IRS. The Board of Directors approved contributions in the amount of 2% of eligible participant's compensation, with a minimum of $25 per eligible participant for the years ended June 30, 2018 and 2017. Employer contributions were $14,286 and $13,884 for the years ended June 30, 2018 and 2017, respectively.

## Note 12 - Fundraising Events

Revenue and direct expenses for the three largest fundraising events and a total for all other events during the years ended June 30, 2018 and 2017 are as follows:

| | Year Ended June 30, 2018 | | | | |
|---|---|---|---|---|---|
| | Record and Video Sales | Thank You Concert | Fall Concert | Other | Total |
| Revenue | $ 48,861 | $ 17,994 | $ 29,542 | $ 7,491 | $ 103,888 |
| Direct fundraising costs | 9,126 | 3,113 | 11,750 | 982 | 24,971 |
| Fundraising, net | $ 39,735 | $ 14,881 | $ 17,792 | $ 6,509 | $ 78,917 |

| | Year Ended June 30, 2017 | | | | |
|---|---|---|---|---|---|
| | Record and Video Sales | Paula Poundstone | Fall Concert | Other | Total |
| Revenue | $ 38,963 | $ 31,905 | $ 19,237 | $ 3,600 | $ 93,705 |
| Direct fundraising costs | 7,762 | 16,219 | 9,431 | 890 | 34,302 |
| Fundraising, net | $ 31,201 | $ 15,686 | $ 9,806 | $ 2,710 | $ 59,403 |