

**PACIFIC PUBLIC MEDIA  
(KNKX)**

FINANCIAL REPORT

DECEMBER 31, 2016

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**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
Pacific Public Media  
Seattle, Washington

We have audited the accompanying financial statements of Pacific Public Media ("KNKX"), which comprise the statement of financial position as of December 31, 2016, and the related statements of activities, functional expenses, and cash flows for the period from January 13, 2016, to December 31, 2016, 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; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States. 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 KNKX as of December 31, 2016, and the changes in its net assets and its cash flows for the period from January 13, 2016, to December 31, 2016, in accordance with accounting principles generally accepted in the United States.

## **Disclaimer of Opinion on Supplementary Information**

Our audit as of December 31, 2016, and for the period from January 13, 2016, to December 31, 2016, was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Activities for the period from September 1, 2016, to December 31, 2016, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

*Peterson Sullivan LLP.*

June 15, 2017

**PACIFIC PUBLIC MEDIA**

STATEMENT OF FINANCIAL POSITION

December 31, 2016

ASSETS	
Current Assets	
Cash	\$ 1,797,692
Underwriting receivable	341,779
Contributions receivable, net	<u>406,102</u>
Total current assets	2,545,573
Contributed Use of Facilities Receivable	175,000
Identifiable Intangible Assets, net	<u>7,989,167</u>
Total assets	<u><u>\$ 10,709,740</u></u>
LIABILITIES AND NET ASSETS	
Current Liabilities	
Accounts payable and accrued expenses	\$ 156,485
Salaries and benefits payable	214,067
Deferred underwriting	<u>28,335</u>
Total current liabilities	398,887
Deferred Underwriting - PLU	<u>960,415</u>
Total liabilities	1,359,302
Net Assets	
Unrestricted	8,769,336
Temporarily restricted	<u>581,102</u>
Total net assets	<u>9,350,438</u>
Total liabilities and net assets	<u><u>\$ 10,709,740</u></u>

See Notes to Financial Statements

## PACIFIC PUBLIC MEDIA

### STATEMENT OF ACTIVITIES

For the Period from January 13, 2016, to December 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and Support			
Listener support	\$ 10,476,143	\$ 406,102	\$ 10,882,245
Grants	45,000		45,000
Underwriting	839,292		839,292
In-kind contributions	51,050		51,050
Contributed use of facilities	29,167	175,000	204,167
Other income	25,414		25,414
	<u>11,466,066</u>	<u>581,102</u>	<u>12,047,168</u>
Total revenue and support			
Expenses			
Program services			
Programming and production	1,024,305		1,024,305
Broadcasting and engineering	493,232		493,232
Program information and promotion	28,850		28,850
	<u>1,546,387</u>		<u>1,546,387</u>
Supporting services			
General and administrative	391,679		391,679
Fundraising and membership development	747,831		747,831
Amortization	10,833		10,833
	<u>1,150,343</u>		<u>1,150,343</u>
Total expenses	<u>2,696,730</u>		<u>2,696,730</u>
<b>Change in net assets and net assets, end of period</b>	<b><u><u>\$ 8,769,336</u></u></b>	<b><u><u>\$ 581,102</u></u></b>	<b><u><u>\$ 9,350,438</u></u></b>

See Notes to Financial Statements

**PACIFIC PUBLIC MEDIA**

STATEMENT OF FUNCTIONAL EXPENSES

For the Period from January 13, 2016, to December 31, 2016

	Program Services				Supporting Services				
	Programming and Production	Broadcasting and Engineering	Program Information and Promotion	Total Program Services	General and Administrative	Fundraising and Membership Development	Amortization	Total Supporting Services	Total
Salaries, payroll taxes, and benefits	\$ 573,486	\$ 146,855	\$ -	\$ 720,341	\$ 168,532	\$ 190,442	\$ -	\$ 358,974	\$ 1,079,315
Professional and contract fees	425,254	225		425,479	174,576	358,304		532,880	958,359
Occupancy and tower leases		172,086		172,086					172,086
Postage and shipping		4	619	623	369	85,869		86,238	86,861
Information technology		64,315	9,300	73,615	9,971			9,971	83,586
Repairs and maintenance		73,652		73,652					73,652
Bank service charges						58,119		58,119	58,119
Supplies	578	6,752	508	7,838	3,349	28,307		31,656	39,494
Events and marketing			18,363	18,363		18,050		18,050	36,413
Travel	8,083	27	60	8,170	14,517	644		15,161	23,331
Dues and subscriptions	13,577			13,577	2,045	2,000		4,045	17,622
Insurance					15,827			15,827	15,827
License, fees and permits		15,600		15,600	85	56		141	15,741
Office expense	2,677	3,981		6,658	403			403	7,061
Conferences					1,180	2,702		3,882	3,882
Amortization							10,833	10,833	10,833
Miscellaneous	650	9,735		10,385	825	3,338		4,163	14,548
<b>Total expenses</b>	<b>\$ 1,024,305</b>	<b>\$ 493,232</b>	<b>\$ 28,850</b>	<b>\$ 1,546,387</b>	<b>\$ 391,679</b>	<b>\$ 747,831</b>	<b>\$ 10,833</b>	<b>\$ 1,150,343</b>	<b>\$ 2,696,730</b>

See Notes to Financial Statements

**PACIFIC PUBLIC MEDIA**

STATEMENT OF CASH FLOWS

For the Period from January 13, 2016, to December 31, 2016

Cash Flows from Operating Activities	
Change in net assets	\$ 9,350,438
Adjustments to reconcile change in net assets to cash flows provided by operating activities	
Contributed use of facilities	(204,167)
Amortization	10,833
Changes in operating assets and liabilities	
Underwriting receivable	(341,779)
Contributions receivable, net	(406,102)
Contributed use of facilities receivable	29,167
Accounts payable and accrued expenses	156,485
Salaries and benefits payable	214,067
Deferred underwriting	(11,250)
	<hr/>
Cash flows from operating activities	8,797,692
Cash Flows from Investing Activity	
Acquisition of identifiable intangible assets	(7,000,000)
	<hr/>
<b>Change in cash and cash, end of period</b>	<b>\$ 1,797,692</b>
	<hr/> <hr/>
Supplemental Disclosure	
Intangible asset financed by deferred underwriting - PLU	\$ 1,000,000
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See Notes to Financial Statements



## NOTES TO FINANCIAL STATEMENTS

### Note 1. Organization and Significant Accounting Policies

#### Organization

Pacific Public Media, incorporated January 13, 2016, and operating under KNKX 88.5 FM ("KNKX"), is a nonprofit corporation providing public radio programming and services to the Puget Sound region. KNKX broadcasts from its Seattle and Tacoma stations.

KNKX prides itself as being the region's best leading source of jazz, blues, and in-depth local and national news, available 24 hours a day online, through a cell phone application, or on the radio. KNKX also provides full-time streaming jazz service, Jazz24. Broadcasting around the world, Jazz24 reaches a worldwide audience and further spreads the American music genre of jazz to new and old listeners alike.

88.5 FM was broadcasted under rights held by KPLU FM Pacific Lutheran University ("PLU") through June 27, 2016, at which time KNKX entered into an asset purchase agreement to acquire the Federal Communications Commission licenses ("the FCC Licenses"), and certain other intangible assets from PLU for a total purchase price of \$8 million. The purchase price was paid in the form of \$7 million in cash, and \$1 million in future underwriting obligations (see Note 3). The purchase price was allocated \$7,935,000 to the FCC Licenses and \$65,000 to trademarks. From inception of KNKX through August 31, 2016, KNKX raised substantial public support to acquire the FCC Licenses and other intangible assets from PLU, and established operations of the station. Effective September 1, 2016, 88.5 FM began broadcasting under KNKX.

#### Financial Statement Presentation

KNKX reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. Contributions restricted by time or program are reported as temporarily restricted support and are then reclassified to unrestricted net assets when the restrictions are met. KNKX has no permanently restricted net assets as of December 31, 2016.

#### Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following at December 31, 2016:

Time restricted listener support	\$	406,102
Contributed use of facilities		175,000
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	\$	581,102
		<hr/> <hr/>

Time restricted listener support represents contributions scheduled by the listener to be received in the following year. Contributed use of facilities represents unamortized use of facilities receivable to be recognized as rent expense in future years (see Note 2). KNKX elected to report temporarily restricted contributions whose restrictions are met in the same period they are received as unrestricted support.

## **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from the estimated amounts.

## **Cash**

Cash consists of cash held in banks. At times during the year, KNKX has cash in banks in excess of the FDIC insurance limits. To mitigate this risk, management believes it has selected financially sound banks to hold its funds.

## **Receivables**

Almost all underwriting fees come from companies located in the Pacific Northwest. These receivables are stated at their outstanding principal balances.

Unconditional promises to give (contributions receivable) that are expected to be collected in one year are recorded at net realizable value. Contributions receivable over periods in excess of one year are initially recorded at fair value including assumptions about expected year of collection, estimated allowance, and donor-specific discount rates.

Management reviews underwriting and contributions receivable on a regular basis and establishes an allowance for accounts that may not be collectible. Any amounts written off are charged against the allowance. Management determined an allowance for uncollectible underwriting receivable was not necessary at December 31, 2016. Management has recognized an allowance for uncollectible contributions receivable of \$326,076 at December 31, 2016.

## **Identifiable Intangible Assets**

Identifiable intangible assets are stated at cost and consist of the following at December 31, 2016:

Jazz24 trademark	\$	65,000
Accumulated amortization		<u>(10,833)</u>
		54,167
FCC licenses		<u>7,935,000</u>
	\$	<u><u>7,989,167</u></u>

The Jazz24 trademark and FCC licenses were acquired in 2016 from PLU. The Jazz24 trademark has an estimated useful life of three years and is amortized on a straight-line basis over the life of the assets. Amortization is expected to be \$21,667, \$21,667, and \$10,833 during the years ending December 31, 2017, 2018, and 2019, respectively. The FCC licenses have an indefinite life and, therefore, are not amortized.

Intangible assets are reviewed at least annually for potential impairment.

## **Revenue**

Listener support represents unconditional amounts given or pledged by individuals, and are recognized in the period received. Grants represent unrestricted funding obtained from other organizations and foundations. All grant revenue is recognized as revenue when the unconditional grant is awarded.

Underwriting fees are recognized when the related programming is aired. Underwriting fees received in advance are recognized as deferred underwriting.

## **In-Kind Contributions**

Donated services and supplies are recognized at their estimated fair value in the financial statements and consist of the following for the period ended December 31, 2016:

Professional fees	\$	33,000
Events and marketing		<u>18,050</u>
	\$	<u><u>51,050</u></u>

In addition, many individuals volunteer their time and perform a variety of tasks for KNKX, but these services do not meet the criteria for recognition in the financial statements as contributed services.

## **Functional Allocation of Expenses**

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

## **Income Taxes**

KNKX is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

## **Subsequent Events**

KNKX has evaluated subsequent events through the date these financial statements were available to be issued, which was June 15, 2017.

## **Note 2. Contributed Use of Facilities**

In August 2016, KNKX entered into a lease agreement for its office and broadcasting space in Tacoma with PLU through June 2019. Under the lease, no annual rent is due from KNKX. Upon execution of the lease, KNKX recognized an in-kind contribution of use of facilities for the fair value of leased premises for the non-cancelable lease period totaling \$204,167. A discount was not recognized on the long-term pledge as the amount was not material. The contributed use of facilities receivable is amortized on a straight-line basis over the lease term to rent expense (included in occupancy on the statement of functional expenses). Rent expense under this lease was \$29,167 during the period ended December 31, 2016. The unamortized balance of the contributed use of facilities receivable was \$175,000 at December 31, 2016.

### Note 3. Deferred Underwriting - PLU

Under terms of the Asset Purchase Agreement ("the Agreement") with PLU, entered into for the purpose of acquiring identifiable intangible assets (see Note 1), KNKX paid \$7 million in cash, and was obligated to provide \$1 million of underwriting services to PLU. Under the Agreement, up to \$100,000 of underwriting is to be provided per year for ten years, with an allowed unused carryover amount of \$10,000 per year. Underwriting in excess of \$100,000 per year will reduce the following year's allocation. Underwriting performed under the Agreement during the period ended December 31, 2016, was \$39,585, and the remaining deferred obligation was \$960,415 at December 31, 2016.

### Note 4. Operating Leases

KNKX leases its Seattle office and broadcasting station under a non-cancellable lease that expires in June 2020. Lease payments are adjusted annually for changes in the Consumer Price Index. Lease expense under this lease during the period ended December 31, 2016, was \$68,865.

Future minimum lease payments under this lease (assuming no Consumer Price Index adjustment) are as follows for the years ending December 31:

2017	\$	149,100
2018		149,100
2019		149,100
2020		74,550
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	\$	521,850
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In addition, KNKX leases equipment and facilities for the purpose of transmitting at 11 separate locations (in addition to its Seattle and Tacoma stations). Terms range from month-to-month to October 2028, and generally require monthly or annual payments with fixed annual increases. Lease expense under these leases during the period ended December 31, 2016, was \$70,713.

Future minimum lease payments under these leases are as follows for the years ending December 31:

2017	\$	160,629
2018		161,759
2019		162,908
2020		164,103
2021		136,053
Thereafter		833,747
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	\$	1,619,199
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S U P P L E M E N T A R Y   I N F O R M A T I O N

**PACIFIC PUBLIC MEDIA**

SCHEDULE OF ACTIVITIES  
(UNAUDITED)

For the Period from September 1, 2016, to December 31, 2016

Revenue and Support	
Listener support	\$ 2,665,156
Grants	45,000
Underwriting	839,292
In-kind contributions	51,050
Contributed use of facilities	204,167
Other income	25,414
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Total revenue and support	3,830,079
Expenses	
Program services	
Programming and production	1,024,305
Broadcasting and engineering	493,242
Program information and promotion	21,067
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	1,538,614
Supporting services	
General and administrative	295,580
Fundraising and membership development	594,585
Amortization	10,833
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	900,998
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Total expenses	2,439,612
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<b>Change in net assets</b>	<b>1,390,467</b>
Net Assets, beginning of period	7,959,971
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Net Assets, end of period	\$ 9,350,438
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