

**PACIFIC PUBLIC MEDIA
(KNKX)**

FINANCIAL REPORT

MAY 31, 2017

C O N T E N T S

	Page
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
STATEMENT OF FINANCIAL POSITION.....	2
STATEMENT OF ACTIVITIES	3
STATEMENT OF FUNCTIONAL EXPENSES	4
STATEMENT OF CASH FLOWS.....	5
NOTES TO FINANCIAL STATEMENTS	6 - 9

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 May 31, 2017, and the related statements of activities, functional expenses, and cash flows for the period from January 1, 2017, to May 31, 2017, 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 May 31, 2017, and the changes in its net assets and its cash flows for the period from January 1, 2017, to May 31, 2017, in accordance with accounting principles generally accepted in the United States.

Peterson Sullivan LLP

October 5, 2017

PACIFIC PUBLIC MEDIA

STATEMENT OF FINANCIAL POSITION

May 31, 2017

ASSETS	
Current Assets	
Cash	\$ 1,903,732
Underwriting receivable	356,279
Contributions receivable, net	404,203
Prepaid expenses	<u>91,058</u>
Total current assets	2,755,272
Contributed Use of Facilities Receivable	145,833
Identifiable Intangible Assets, net	<u>7,980,139</u>
Total assets	<u><u>\$ 10,881,244</u></u>
LIABILITIES AND NET ASSETS	
Current Liabilities	
Accounts payable and accrued expenses	\$ 145,974
Salaries and benefits payable	125,757
Deferred underwriting	<u>13,439</u>
Total current liabilities	285,170
Deferred Underwriting - PLU	<u>919,075</u>
Total liabilities	1,204,245
Net Assets	
Unrestricted	9,126,963
Temporarily restricted	<u>550,036</u>
Total net assets	<u>9,676,999</u>
Total liabilities and net assets	<u><u>\$ 10,881,244</u></u>

See Notes to Financial Statements

PACIFIC PUBLIC MEDIA

STATEMENT OF ACTIVITIES

For the Period from January 1, 2017, to May 31, 2017

	Unrestricted	Temporarily Restricted	Total
Revenue and Support			
Listener support	\$ 1,335,305	\$ 404,203	\$ 1,739,508
Community service grant from Corporation for Public Broadcasting	503,918		503,918
Underwriting	988,529		988,529
In-kind contributions	220,262		220,262
Other income	32,802		32,802
Net assets released from restrictions	435,269	(435,269)	
Total revenue and support	3,516,085	(31,066)	3,485,019
Expenses			
Program services			
Programming and production	1,275,850		1,275,850
Broadcasting and engineering	515,746		515,746
Program information and promotion	210,829		210,829
	2,002,425		2,002,425
Supporting services			
General and administrative	317,846		317,846
Fundraising and membership development	829,159		829,159
Amortization	9,028		9,028
	1,156,033		1,156,033
Total expenses	3,158,458		3,158,458
Change in net assets	357,627	(31,066)	326,561
Net Assets, beginning of period	8,769,336	581,102	9,350,438
Net Assets, end of period	\$ 9,126,963	\$ 550,036	\$ 9,676,999

See Notes to Financial Statements

PACIFIC PUBLIC MEDIA

STATEMENT OF FUNCTIONAL EXPENSES

For the Period from January 1, 2017, to May 31, 2017

	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	\$ 694,615	\$ 179,262	\$ -	\$ 873,877	\$ 202,241	\$ 259,312	\$ -	\$ 461,553	\$ 1,335,430
Professional and contract fees	562,688	77,358	604	640,650	62,816	340,753		403,569	1,044,219
Advertising			191,629	191,629					191,629
Occupancy and tower leases		168,585		168,585					168,585
Postage and shipping			772	772	26	84,153		84,179	84,951
Office expense	3,809	42,712		46,521	32,169			32,169	78,690
Supplies	404	8,100	707	9,211	3,559	51,248		54,807	64,018
Bank service charges						56,964		56,964	56,964
Events and marketing			15,941	15,941	4,167	35,014		39,181	55,122
Travel	12,613	8,935	1,176	22,724		991		991	23,715
License, fees, and permits		15,600		15,600	160			160	15,760
Amortization							9,028	9,028	9,028
Conferences					7,158			7,158	7,158
Repairs and maintenance		5,198		5,198					5,198
Insurance					3,915			3,915	3,915
Dues and subscriptions	1,721			1,721		475		475	2,196
Miscellaneous		9,996		9,996	1,635	249		1,884	11,880
Total expenses	\$ 1,275,850	\$ 515,746	\$ 210,829	\$ 2,002,425	\$ 317,846	\$ 829,159	\$ 9,028	\$ 1,156,033	\$ 3,158,458

See Notes to Financial Statements

PACIFIC PUBLIC MEDIA

STATEMENT OF CASH FLOWS

For the Period from January 1, 2017, to May 31, 2017

Cash Flows from Operating Activities	
Change in net assets	\$ 326,561
Adjustments to reconcile change in net assets to net cash flows from operating activities	
Amortization	9,028
Changes in operating assets and liabilities	
Underwriting receivable	(14,500)
Contributions receivable	1,899
Prepaid expenses	(91,058)
Contributed use of facilities receivable	29,167
Accounts payable and accrued expenses	(150,273)
Salaries and benefits payable	51,452
Deferred underwriting	(56,236)
	<hr/>
Net cash flows from operating activities and change in cash	106,040
Cash, beginning of period	<hr/> 1,797,692
Cash, end of period	<hr/> <hr/> \$ 1,903,732

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 a 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.

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 May 31, 2017.

Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following at May 31, 2017:

Time-restricted listener support	\$	404,203
Contributed use of facilities		145,833
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	\$	550,036
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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 May 31, 2017. Management has recognized an allowance for uncollectible contributions receivable of \$158,895 at May 31, 2017.

Identifiable Intangible Assets

Identifiable intangible assets are stated at cost and consist of the following at May 31, 2017:

Jazz24 trademark	\$	65,000
Accumulated amortization		<u>(19,861)</u>
		45,139
FCC licenses		<u>7,935,000</u>
	\$	<u><u>7,980,139</u></u>

The Jazz24 trademark and FCC licenses were acquired in 2016 from Pacific Lutheran University ("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 \$1,805 during the years ending May 31, 2018, 2019, and 2020, 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. Grant revenue from the Corporation for Public Broadcasting represents unrestricted funding use to support general operations. All grant revenue is recognized as revenue when the grant is awarded, unless there are conditions placed on the grant by the donor.

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 May 31, 2017:

Advertising	\$	191,629
Events and marketing		28,633
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	\$	220,262
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All in-kind advertising was received from one donor for the period ended May 31, 2017. 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 October 5, 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 noncancelable 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 May 31, 2017. The unamortized balance of the contributed use of facilities receivable was \$145,833 at May 31, 2017.

Note 3. Deferred Underwriting - PLU

Under terms of the Asset Purchase Agreement ("the Agreement") with PLU in 2016, 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 May 31, 2017, was \$41,340. The remaining deferred obligation was \$919,075 at May 31, 2017.

Note 4. Operating Leases

KNKX leases its Seattle office and broadcasting station under a noncancelable 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 May 31, 2017, was \$62,157.

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

2018	\$	149,112
2019		149,112
2020		149,112
2021		12,426
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	\$	459,762
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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 June 2030, and generally require monthly or annual payments with fixed annual increases. Lease expense under these leases during the period ended May 31, 2017, was \$77,261.

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

2018	\$	154,554
2019		155,359
2020		156,178
2021		144,819
2022		128,477
Thereafter		696,947
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	\$	1,436,334
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Note 5. Retirement Plan

KNKX has a defined contribution 401(k) pension plan ("the Plan") covering employees who meet prescribed service requirements. Contributions are made in accordance with the provisions of the Plan, which require employer contributions of 3% of total compensation and, in addition, a match of employee contributions of up to 6% of compensation. During the period ended May 31, 2017, KNKX contributed \$78,984 to the Plan.