

**PACIFIC PUBLIC MEDIA
(KNKX)**

FINANCIAL REPORT

MAY 31, 2018

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 - 10

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, 2018, and the related statements of activities, functional expenses, and cash flows for the year 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; 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, 2018, and the changes in its net assets and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States.

Peterson Sullivan LLP

October 10, 2018

PACIFIC PUBLIC MEDIA (KNKX)

STATEMENT OF FINANCIAL POSITION

May 31, 2018

ASSETS	
Current Assets	
Cash	\$ 2,873,108
Underwriting receivable	365,056
Contributions receivable, net	922,470
Prepaid expenses	91,793
Total current assets	<u>4,252,427</u>
Software and Equipment	157,006
Contributed Use of Facilities Receivable	75,835
Identifiable Intangible Assets, net	7,958,467
Total assets	<u><u>\$ 12,443,735</u></u>
LIABILITIES AND NET ASSETS	
Current Liabilities	
Accounts payable and accrued expenses	\$ 173,774
Salaries and benefits payable	174,631
Deferred underwriting	9,920
Total current liabilities	<u>358,325</u>
Deferred Underwriting - PLU	<u>818,490</u>
Total liabilities	<u>1,176,815</u>
Net Assets	
Unrestricted	10,187,287
Temporarily restricted	1,079,633
Total net assets	<u>11,266,920</u>
Total liabilities and net assets	<u><u>\$ 12,443,735</u></u>

See Notes to Financial Statements

PACIFIC PUBLIC MEDIA (KNKX)

STATEMENT OF ACTIVITIES

For the Year Ended May 31, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and Support			
Listener support	\$ 4,514,987	\$ 922,470	\$ 5,437,457
Bequests	190,302		190,302
Grants	20,000	100,027	120,027
Community service grant from Corporation for Public Broadcasting	545,776		545,776
Underwriting	2,499,198		2,499,198
In-kind contributions	395,733		395,733
Other income	55,851		55,851
Net assets released from restrictions	492,900	(492,900)	
Total revenue and support	<u>8,714,747</u>	<u>529,597</u>	<u>9,244,344</u>
Expenses			
Program services			
Programming and production	3,034,787		3,034,787
Broadcasting and engineering	1,316,049		1,316,049
Program information and promotion	489,620		489,620
	<u>4,840,456</u>		<u>4,840,456</u>
Supporting services			
General and administrative	847,007		847,007
Fundraising and membership development	1,945,288		1,945,288
Amortization	21,672		21,672
	<u>2,813,967</u>		<u>2,813,967</u>
Total expenses	<u>7,654,423</u>		<u>7,654,423</u>
Change in net assets	1,060,324	529,597	1,589,921
Net Assets, beginning of year	<u>9,126,963</u>	<u>550,036</u>	<u>9,676,999</u>
Net Assets, end of year	<u>\$ 10,187,287</u>	<u>\$ 1,079,633</u>	<u>\$ 11,266,920</u>

See Notes to Financial Statements

PACIFIC PUBLIC MEDIA (KNKX)

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended May 31, 2018

	Program Services				Supporting Services				Total
	Programming and Production	Broadcasting and Engineering	Program Information and Promotion	Total Program Services	General and Administrative	Fundraising and Membership Development	Amortization	Total Supporting Services	
Salaries, payroll taxes, and benefits	\$ 1,752,210	\$ 415,852	\$ -	\$ 2,168,062	\$ 552,935	\$ 614,782	\$ -	\$ 1,167,717	\$ 3,335,779
Professional and contract fees	1,198,303	16,761	99,202	1,314,266	127,599	854,843		982,442	2,296,708
Occupancy and tower leases		441,145		441,145					441,145
Advertising (includes in-kinds of \$395,733)			362,629	362,629	1,500	35,839		37,339	399,968
Information technology	10,647	290,327	8,526	309,500	31,550	176		31,726	341,226
Postage and shipping		3,209	7,614	10,823	209	232,920		233,129	243,952
Bank service charges						-		129,661	129,661
Supplies	1,669	13,322	5,840	20,831	8,089	48,605		56,694	77,525
Legal services					56,945			56,945	56,945
Office expense	738	44,740		45,478					45,478
Repairs and maintenance		44,643		44,643					44,643
Travel	21,995	13,507	2,706	38,208	3,219	1,407		4,626	42,834
Dues and subscriptions	23,079	30		23,109	680	10,269		10,949	34,058
License, fees, and permits		31,700		31,700	778			778	32,478
Insurance					24,025			24,025	24,025
Amortization							21,672	21,672	21,672
Events and marketing			3,103	3,103	4,851	11,611		16,462	19,565
All Things Considered Project	18,699			18,699					18,699
Conferences	7,447	813		8,260	2,607	5,175		7,782	16,042
Bad debt					32,020			32,020	32,020
Total expenses	\$ 3,034,787	\$ 1,316,049	\$ 489,620	\$ 4,840,456	\$ 847,007	\$ 1,945,288	\$ 21,672	\$ 2,813,967	\$ 7,654,423

See Notes to Financial Statements

PACIFIC PUBLIC MEDIA (KNKX)

STATEMENT OF CASH FLOWS
For the Year Ended May 31, 2018

Cash Flows from Operating Activities	
Change in net assets	\$ 1,589,921
Adjustments to reconcile change in net assets to net cash flows from operating activities	
Amortization	21,672
Changes in operating assets and liabilities	
Underwriting receivable	(8,777)
Contributions receivable	(518,267)
Prepaid expenses	(735)
Contributed use of facilities receivable	69,998
Accounts payable and accrued expenses	27,800
Salaries and benefits payable	48,874
Deferred underwriting	(104,104)
	<hr/>
Net cash flows from operating activities	1,126,382
Cash Flows from Investing Activity	
Purchases of software and equipment	(157,006)
	<hr/>
Net change in cash	969,376
Cash, beginning of year	<hr/> 1,903,732
Cash, end of year	<hr/> <hr/> \$ 2,873,108

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, 2018.

Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following at May 31, 2018:

Time-restricted listener support	\$	922,470
All Things Considered broadcasting		81,328
Contributed use of facilities		75,835
		<hr/>
	\$	1,079,633
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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, 2018. Management has recognized an allowance for uncollectible contributions receivable of \$146,493 at May 31, 2018.

Software and Equipment

KNKX capitalizes expenditures for software and equipment at cost or if donated, at the estimated fair value at the time of receipt. KNKX capitalizes software and equipment purchases with a cost or donated value of greater than \$10,000 and a useful life in excess of one year. Depreciation and amortization is computed using the straight-line method over the estimated useful life for all software and equipment. All software and equipment held at May 31, 2018, is not yet placed in service and, therefore, no depreciation or amortization has been recognized.

Identifiable Intangible Assets

Identifiable intangible assets are stated at cost and consist of the following at May 31, 2018:

Jazz24 trademark	\$	65,000
Accumulated amortization		<u>(41,533)</u>
		23,467
FCC licenses		<u>7,935,000</u>
	\$	<u><u>7,958,467</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 \$21,672 and \$1,795 during the years ending May 31, 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. Subscription revenue is recognized for a 12-month period as of the renewal date of the initial subscription, as memberships may be canceled at any time by the donor. 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.

Bequests are recognized when KNKX is notified by the executor as to the amount to be received and the estate has cleared probate.

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. In-kind advertising of \$359,894 was received from one donor for the year ended May 31, 2018. 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 10, 2018.

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 \$69,998 during the year ended May 31, 2018. The aggregate unamortized balance of the contributed use of facilities receivable was \$75,835 at May 31, 2018, of which, \$70,000 and \$5,835 are expected to be amortized during the years ending May 31, 2019 and 2020, respectively.

Note 3. Deferred Underwriting – PLU

Under terms of the Asset Purchase Agreement ("the Agreement") with PLU in 2016 (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 year ended May 31, 2018, was \$101,585. The remaining deferred obligation was \$818,490 at May 31, 2018.

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 year ended May 31, 2018, was \$162,881.

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

2019	\$	158,208
2020		158,208
2021		13,184
		<hr/>
	\$	329,600
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In addition, KNKX leases equipment and facilities for the purpose of transmitting at 12 separate locations (in addition to its Seattle and Tacoma stations). Terms range from month to month to an expiration in June 2030, and generally require monthly or annual payments with fixed annual increases. Lease expense under these leases during the year ended May 31, 2018, was \$208,267.

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

2019	\$	173,810
2020		179,384
2021		172,975
2022		158,913
2023		164,859
Thereafter		817,956
		<hr/>
	\$	1,667,898
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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 year ended May 31, 2018, KNKX contributed \$199,658 to the Plan.

Note 6. Subsequent Lease Commitment

KNKX entered into a lease agreement in September 2018 for office and broadcasting space in Tacoma, Washington, which will replace the existing leased space at PLU that expires in June 2019 (see Note 2). The lease is effective July 2019, with a 10-year term including four five-year options to extend (for a total available lease period of 30 years). The landlord has agreed to cover tenant improvements of up to \$209,688. Monthly rents range from \$13,661 to \$17,061, increasing each 12-month period based on fixed increases throughout the initial 10-year lease period.