

KUOW/PUGET SOUND PUBLIC RADIO

FINANCIAL REPORT

JUNE 30, 2019

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
KUOW/Puget Sound Public Radio
Seattle, Washington

We have audited the accompanying financial statements of KUOW/Puget Sound Public Radio, which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. 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 KUOW/Puget Sound Public Radio as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

Peterson Sullivan LLP

November 14, 2019

KUOW/PUGET SOUND PUBLIC RADIO

STATEMENTS OF FINANCIAL POSITION

June 30, 2019 and 2018

ASSETS	2019	2018
Current Assets		
Cash	\$ 2,316,517	\$ 951,534
Investments	3,696,541	6,601,357
Accounts receivable, net	809,712	636,013
Pledges receivable, current portion	314,166	10,602
Prepaid expenses	75,923	216,797
Total current assets	7,212,859	8,416,303
Investments Held for Endowment	4,470,655	4,535,481
Long-Term Pledges Receivable, net	366,667	
Interest in Endowment Held by the University	80,492	81,543
Property, Plant, and Equipment, net	5,015,863	3,713,988
Total assets	<u>\$ 17,146,536</u>	<u>\$ 16,747,315</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 238,147	\$ 313,957
Net Assets		
Without donor restrictions	15,977,634	16,200,524
With donor restrictions	930,755	232,834
Total net assets	16,908,389	16,433,358
Total liabilities and net assets	<u>\$ 17,146,536</u>	<u>\$ 16,747,315</u>

See Notes to Financial Statements

KUOW/PUGET SOUND PUBLIC RADIO

STATEMENTS OF ACTIVITIES

For the Years Ended June 30, 2019 and 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support						
Listener support, net	11,770,507	947,674	12,718,181	11,637,486	104,280	11,741,766
Underwriting, net	4,524,309		4,524,309	4,054,270		4,054,270
Community service grant from Corporation for Public Broadcasting	750,693		750,693	649,413		649,413
Other grants and contributions	25,040		25,040	71,893		71,893
Interest and dividend income	187,689		187,689	378,327		378,327
Donated services and supplies	223,249		223,249	45,396		45,396
Direct support from the University	133,152		133,152	132,583		132,583
Indirect support from the University	169,973		169,973	143,043		143,043
	<u>17,784,612</u>	<u>947,674</u>	<u>18,732,286</u>	<u>17,112,411</u>	<u>104,280</u>	<u>17,216,691</u>
Net Assets Released from Restrictions	249,753	(249,753)		78,884	(78,884)	
Total revenue and support	18,034,365	697,921	18,732,286	17,191,295	25,396	17,216,691
Expenses						
Program services						
Programming and production	8,309,896		8,309,896	7,702,325		7,702,325
Broadcasting	883,561		883,561	1,047,801		1,047,801
Public information	3,827,290		3,827,290	2,883,967		2,883,967
	<u>13,020,747</u>		<u>13,020,747</u>	<u>11,634,093</u>		<u>11,634,093</u>
Supporting services						
Listener support	2,356,701		2,356,701	2,403,263		2,403,263
General and administrative	1,925,519		1,925,519	1,482,251		1,482,251
Underwriting	1,036,897		1,036,897	972,917		972,917
	<u>5,319,117</u>		<u>5,319,117</u>	<u>4,858,431</u>		<u>4,858,431</u>
Total expenses	18,339,864		18,339,864	16,492,524		16,492,524
Change in net assets before investment gain	(305,499)	697,921	392,422	698,771	25,396	724,167
Investment Gain	82,609		82,609	359,743	5,582	365,325
Change in net assets	(222,890)	697,921	475,031	1,058,514	30,978	1,089,492
Net Assets, beginning of year	16,200,524	232,834	16,433,358	15,142,010	201,856	15,343,866
Net Assets, end of year	<u>\$ 15,977,634</u>	<u>\$ 930,755</u>	<u>\$ 16,908,389</u>	<u>\$ 16,200,524</u>	<u>\$ 232,834</u>	<u>\$ 16,433,358</u>

See Notes to Financial Statements

KUOW/PUGET SOUND PUBLIC RADIO

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2019

	Program Services				Supporting Services				Total
	Programming and Production	Broadcasting	Public Information	Total Program Services	Listener Support	General and Administrative	Underwriting	Total Supporting Services	
Salaries and benefits, including pension expense of \$496,130	4,986,505	494,565	2,459,093	7,940,163	1,221,806	1,252,661	861,623	3,336,090	11,276,253
Professional services	264,111	1,500	103,546	369,157	54,370	97,422	19,663	171,455	540,612
Contract services									
Program acquisition	2,056,011			2,056,011					2,056,011
Rent	507,115	64,455	266,306	837,876	121,569	139,925	65,584	327,078	1,164,954
Printing	1,726	144	6,129	7,999	258,537	10,986	45	269,568	277,567
Agency and processing fees					93,064	109,739	120	202,923	202,923
Postage	77	1,116	180	1,373	184,235	2,878	1,060	188,173	189,546
Telecommunications	64,033	45,219	33,088	142,340	18,979	14,233	7,599	40,811	183,151
Other contract services	104,265	139,834	540,255	784,354	29,295	123,026	18,496	170,817	955,171
Supplies	20,852	105,723	107,333	233,908	263,759	93,401	2,896	360,056	593,964
Depreciation and amortization	160,775	17,079	82,924	260,778	46,641	23,510	23,664	93,815	354,593
Travel	59,258	6,200	10,615	76,073	33,142	24,388	5,247	62,777	138,850
Miscellaneous						547	12,500	13,047	13,047
Total expenses before donated services and similar	8,224,728	875,835	3,609,469	12,710,032	2,325,397	1,892,716	1,018,497	5,236,610	17,946,642
Donated services and supplies and indirect support from the University	85,168	7,726	217,821	310,715	31,304	32,803	18,400	82,507	393,222
	<u>\$ 8,309,896</u>	<u>\$ 883,561</u>	<u>\$ 3,827,290</u>	<u>\$ 13,020,747</u>	<u>\$ 2,356,701</u>	<u>\$ 1,925,519</u>	<u>\$ 1,036,897</u>	<u>\$ 5,319,117</u>	<u>\$ 18,339,864</u>

See Notes to Financial Statements

KUOW/PUGET SOUND PUBLIC RADIO

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2018

	Program Services				Supporting Services			Total	
	Programming and Production	Broadcasting	Public Information	Total Program Services	Listener Support	General and Administrative	Underwriting		Total Supporting Services
Salaries and benefits, including pension expense of \$533,091	4,526,416	612,405	1,872,396	7,011,217	1,157,121	774,170	775,749	2,707,040	9,718,257
Professional services	217,008	51,122	190,734	458,864	101,231	143,148	18,036	262,415	721,279
Contract services									
Program acquisition	2,119,345			2,119,345					2,119,345
Rent	424,786	52,942	258,790	736,518	122,603	92,314	72,304	287,221	1,023,739
Postage	28	368	309	705	244,948	1,713	1,261	247,922	248,627
Printing	2,466	267	12,084	14,817	184,526	4,216	416	189,158	203,975
Agency and processing fees					818	159,277	1,261	161,356	161,356
Telecommunications	40,391	46,950	25,235	112,576	14,588	7,683	6,027	28,298	140,874
Other contract services	86,572	155,573	231,449	473,594	57,329	144,582	21,049	222,960	696,554
Supplies	13,687	97,995	143,186	254,868	394,375	65,110	5,136	464,621	719,489
Depreciation and amortization	151,010	16,065	89,964	257,039	41,769	32,129	25,704	99,602	356,641
Travel	50,650	3,200	27,959	81,809	51,173	41,005	7,027	99,205	181,014
Miscellaneous		30		30	12	1,783	15,000	16,795	16,825
Total expenses before donated services and similar	7,632,359	1,036,917	2,852,106	11,521,382	2,370,493	1,467,130	948,970	4,786,593	16,307,975
Donated services and supplies and indirect support from the University	69,966	10,884	31,861	112,711	32,770	15,121	23,947	71,838	184,549
	<u>\$ 7,702,325</u>	<u>\$ 1,047,801</u>	<u>\$ 2,883,967</u>	<u>\$ 11,634,093</u>	<u>\$ 2,403,263</u>	<u>\$ 1,482,251</u>	<u>\$ 972,917</u>	<u>\$ 4,858,431</u>	<u>\$ 16,492,524</u>

See Notes to Financial Statements

KUOW/PUGET SOUND PUBLIC RADIO

STATEMENTS OF CASH FLOWS For the Years Ended June 30, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Change in net assets	\$ 475,031	\$ 1,089,492
Adjustments to reconcile change in net assets to net cash flows provided by operating activities		
Depreciation and amortization	354,593	356,641
Gain on investments	(82,609)	(365,325)
Change in operating assets and liabilities		
Accounts receivable	(173,699)	(117,551)
Pledges receivable	(670,231)	27,133
Prepaid expenses	140,874	(162,036)
Accounts payable and accrued expenses	(75,810)	182,706
Net cash flows from operating activities	(31,851)	1,011,060
Cash Flows from Investing Activities		
Acquisitions of property and equipment	(1,656,468)	(2,229,894)
Sale (purchase) of investments	3,053,302	(372,383)
Net cash flows from investing activities	1,396,834	(2,602,277)
Change in cash	1,364,983	(1,591,217)
Cash, beginning of year	951,534	2,542,751
Cash, end of year	\$ 2,316,517	\$ 951,534

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

Note 1. Organization and Significant Accounting Policies

Organization

KUOW/Puget Sound Public Radio ("KUOW") is a nonprofit corporation providing public radio programming and services to the Puget Sound region including Seattle, Tacoma, and other communities in Western Washington and Southern British Columbia. KUOW currently operates the three following public radio stations:

- KUOW-FM Seattle
- KUOW Tumwater
- KQOW Bellingham

All three stations are licensed to the University of Washington ("the University").

Fiscal Year

KUOW operates on a fiscal year ending on June 30.

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.

Financial Statement Presentation

KUOW reports information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions. Contributions restricted by time or program are reported as restricted support and are then reclassified to net assets without donor restrictions when the restrictions are met. If restricted contributions are received and the restrictions are met in the period received, they are recorded as being without donor restrictions.

Net Assets with Donor Restrictions

Some net assets with donor restrictions are temporary in nature and consist of unexpended contributions restricted for particular programs or time periods. Other net assets have perpetual donor restrictions, where the principal of the contributions is restricted in perpetuity and the income from which is utilized for the purposes specified by the donors. Net assets with temporary donor restrictions are transferred to net assets without donor restrictions as expenditures are incurred for the restricted programs or as time restrictions are met.

Net assets with donor restrictions consist of the following at June 30:

	2019	2018
Net assets with purpose or time restrictions		
Digital services	\$ 333,333	\$ -
Future periods	330,000	
Smart speakers	78,802	94,280
Wayne C. Roth Fund	61,903	57,011
RadioActive studio construction	31,225	
The Wild podcast	15,000	
	850,263	151,291
Net assets with endowment restrictions		
Interest in endowment held by the University	80,492	81,543
	\$ 930,755	\$ 232,834

Net assets with endowment restrictions consist of a portion of a pool of various investments. The investment is accounted for at the fair value of the underlying investments and is considered Level 3 in the fair value hierarchy described below. The income is to be used to support the operations of KUOW.

The value of Level 3 assets is provided by the University. The change in value year over year is a result of changes in fair value of the underlying assets (a loss of \$1,051 and gain of \$5,582 during the years ended June 30, 2019 and 2018, respectively).

Fair Value Measurements

Fair value is a market-based measurement determined based on assumptions that market participants would use in pricing an asset or liability. There are three levels that prioritize the inputs used in measuring fair value as follows:

- Level 1: Observable market inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Observable market inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3: Unobservable inputs where there is little or no market data, which require the reporting entity to develop its own assumptions.

Investments and the interest in funds held by the University are presented at fair value in these financial statements.

Functional Allocation of Expenses

The financial statements report certain categories of expenses that are allocated across several services. Payroll expenses are allocated based on the program or function benefitted. Payroll-related costs, including payroll taxes and employer benefits, are allocated based on employment classifications using a percentage rate calculated by the University of Washington each year. Expenses such as occupancy, insurance, depreciation, and amortization are allocated on a headcount basis.

Donated Services and Supplies/Support from the University

Donated services and supplies are recognized at their estimated fair value in the financial statements and consist of the following for the years ended June 30:

	<u>2019</u>	<u>2018</u>
Services	\$ 175,494	\$ 41,840
Supplies	32,101	
Contributed radio acknowledgements	15,654	3,556
	<u>\$ 223,249</u>	<u>\$ 45,396</u>

Direct support from the University (amounting to \$133,152 in 2019 and \$132,583 in 2018) primarily represents the portion of the salary and benefits for KUOW's President that was paid for by the University. Direct support also includes other payroll-related support.

KUOW also receives indirect administrative support from the University. This support consists of:

- Human resources
- Payroll
- Legal counsel
- Purchasing and disbursing
- Media relations and communications

The value of indirect support is recorded based on the Corporation for Public Broadcasting guidelines, and totaled \$169,973 and \$143,043 for the years ended June 30, 2019 and 2018, respectively.

On the statements of functional expenses, donated services and supplies and the indirect support from the University are combined into one line and consist of the following at June 30:

	<u>2019</u>	<u>2018</u>
Donated services and supplies	\$ 223,249	\$ 41,506
Indirect support from the University	169,973	143,043
	<u>\$ 393,222</u>	<u>\$ 184,549</u>

The University pays certain expenses such as payroll, benefits, and rent on behalf of KUOW, and KUOW reimburses the University for these costs each month. As of June 30, 2019, KUOW had overpaid for these reimbursements and was due \$50,183 from the University, which is included within accounts receivable. As of June 30, 2018, KUOW owed \$42,839 to the University, which is included within accounts payable and accrued expenses.

Cash

Cash consists of cash in a bank, and money market funds held in an investment account. At times during the year, KUOW has cash in banks in excess of the FDIC insurance limits. Amounts held in investment accounts are not covered by FDIC insurance; however, some balances may be covered by the Securities Investor Protection Corporation. To mitigate this risk, management believes it has selected financially sound financial institutions to hold its funds.

Accounts Receivable

Almost all subscriptions and underwriting fees come from individuals and companies located in the Pacific Northwest. Underwriting receivables are stated at their outstanding principal balances. Management reviews receivables on a regular basis and establishes an allowance for accounts that may not be collectible. Any amounts written off are charged against the allowance. The allowance for doubtful accounts balances was \$68,318 and \$68,017 at June 30, 2019 and 2018, respectively.

Pledges Receivable

Pledges receivable consist of unconditional promises to give and are recognized as revenue when the promise is made. Pledges that are expected to be collected within one year are recorded at net realizable value. Pledges receivable that are expected to be collected in future years are initially recorded at fair value at the time of donation, which is measured at the present value of expected future cash flows. To arrive at fair value, the pledges are discounted using an estimated present value risk-adjusted discount rate and an allowance for doubtful accounts. KUOW's long-term pledges receivable are expected to be collected as of June 30, 2021. As of June 30, 2019 and 2018, respectively, no discount was recorded as management determined that the discount would be immaterial to these financial statements.

For the year ended June 30, 2019, 92% of total pledges receivable is due from two organizations. There were no concentrations in pledges receivable at June 30, 2018.

Investments

Investments are stated at fair value either using Level 1 inputs on the fair value hierarchy or net asset value ("NAV"). Investments stated at fair value (using Level 1 inputs) include mutual funds and exchange-traded funds. These investments are valued based on quoted prices in active markets. Investments also include Bernstein Dynamic Asset Allocation Overlays, which are similar to mutual funds but not actively traded, and the Bernstein Multi-Manager Alternative Fund, which is a diversified fund of hedge funds and is also not actively traded. Overlay A is an equity-oriented asset allocation and invests in domestic and international common stocks, futures contracts, and forward currency contracts. Overlay B is a fixed-income-oriented asset allocation and invests in domestic and international bonds, futures contracts, and forward currency contracts. The Multi-Manager Alternative Fund seeks to provide long-term capital appreciation by allocating assets among hedge funds that employ a broad range of strategies.

Overlay A and B, and the Multi-Manager Alternative Fund are valued based on the NAV of the underlying investments. NAV would not be used as a practical expedient to determine fair value if it is expected the related investments would sell for a different amount than NAV. The investments have no redemption restrictions and have no future funding requirements.

Investments are summarized as follows:

	<u>2019</u>	<u>2018</u>
Mutual Funds and Exchange-Traded Funds (valued using Level 1 inputs)	\$ 2,412,357	\$ 4,100,770
Bernstein Multi-Manager Alternative Fund (valued at NAV)	248,460	750,373
Bernstein Dynamic Asset Allocation Overlays (valued at NAV)		
Overlay A	503,151	839,786
Overlay B	532,573	910,428
	<u>\$ 3,696,541</u>	<u>\$ 6,601,357</u>

Investments held for the endowment are summarized as follows:

	<u>2019</u>	<u>2018</u>
Mutual Funds and Exchange-Traded Funds (valued using Level 1 inputs)	\$ 2,801,689	\$ 2,756,786
Bernstein Multi-Manager Alternative Fund (valued at NAV)	464,969	603,888
Bernstein Dynamic Asset Allocation Overlays (valued at NAV)		
Overlay A	962,078	935,371
Overlay B	241,919	239,436
	<u>\$ 4,470,655</u>	<u>\$ 4,535,481</u>

Property, Plant, and Equipment

Property, plant, and equipment are recorded at cost or, in the case of donated property, at the estimated fair market value at the date of donation. Depreciation and amortization are calculated by the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the anticipated lease term if shorter than the asset's useful life. Donated assets are considered unrestricted property unless the use is specifically restricted by the donor. KUOW's policy is to capitalize items with a cost greater than \$3,000 and a useful life greater than one year.

Revenue

Listener support (individual subscriptions) represents amounts given or pledged by individuals and are recognized in the period received. Subscription revenue is recognized as payments are made, given that subscriptions may be canceled at any time by the donor. Listener support is presented net of related agency and processing fees of \$297,517 and \$226,780 for the years ended June 30, 2019 and 2018, respectively.

Underwriting revenue is recognized when the related programming is aired. Related revenue is presented net of related agency and processing fees of \$571,534 and \$671,220 for the years ended June 30, 2019 and 2018, respectively.

Grant revenue from the Corporation for Public Broadcasting represents unrestricted funding used to support general operations. Other grants and contributions represent both restricted and unrestricted funding obtained from other organizations and foundations. All grant revenue is recognized as revenue when it is granted unless there are conditions placed on the grant by the donor.

Fundraising

Total fundraising costs were \$3,393,598 and \$3,376,180 for the years ended June 30, 2019 and 2018, respectively. These costs exclude agency and processing fees directly related to revenue, which are netted against related listener support or underwriting revenue on the statements of activities. The composition of fundraising costs appears in the listener support and underwriting columns of the statements of functional expenses.

Income Taxes

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

Recent Accounting Pronouncement Adopted

During the year ended June 30, 2019, KUOW adopted the provisions of Accounting Standards Update ("ASU") No. 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classifications, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. KUOW has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

Reclassifications

Certain amounts in the prior year financial statements have been reclassified to conform to the current year presentation.

Subsequent Events

KUOW has evaluated subsequent events through the date these financial statements were available to be issued, which was November 14, 2019.

Note 2. Liquidity and Availability

KUOW strives to maintain liquid financial assets sufficient to cover three months of general operating expenditures. General expenditures include costs to run programs, fundraise, perform underwriting services, and other contractual obligations. Financial assets in excess of daily cash requirements are invested with AB Bernstein with specific investment targets as established by the Finance Committee and the Financial Investment Sub-Committee of Puget Sound Public Radio board.

KUOW manages cash available to meet general expenditures following three guiding principles:

- Operating within a prudent range of financial soundness and stability within the approved budgeted parameters,
- Maintaining adequate liquid assets, and
- Maintaining sufficient reserves to provide reasonable assurance that long-term mission fulfillment will continue to be met, ensuring the sustainability of the organization.

The following table reflects the KUOW's financial assets as of June 30, 2019 and 2018, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date because of contractual restrictions, donor restrictions, or internal board designations. In the event that the need arises to utilize board-designated funds for liquidity purposes, these reserves could be drawn upon through board resolution.

	2019	2018
Cash	\$ 2,316,517	\$ 951,534
Investments	3,696,541	6,601,357
Investments held for endowment	4,470,655	4,535,481
Accounts receivable, net	809,712	636,013
Pledges receivable, current portion	314,166	10,602
	<u>11,607,591</u>	<u>12,734,987</u>
Net assets with donor restrictions, not for day-to-day operations	(930,755)	(232,834)
Board-designated funds held as endowment (see Note 5)	<u>(4,470,655)</u>	<u>(4,535,481)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 6,206,181</u>	<u>\$ 7,966,672</u>

Note 3. Property, Plant, and Equipment

A summary of property, plant, and equipment is as follows as of June 30:

	2019	2018
Leasehold improvements	\$ 7,543,944	\$ 5,146,070
Equipment	804,354	77,724
Digital infrastructure	529,666	475,666
	<u>8,877,964</u>	<u>5,699,460</u>
Less: accumulated depreciation and amortization	<u>(4,796,402)</u>	<u>(4,441,809)</u>
	4,081,562	1,257,651
Construction in progress	928,701	2,450,737
Land	5,600	5,600
	<u>\$ 5,015,863</u>	<u>\$ 3,713,988</u>

Construction in progress as of June 30, 2019, is made up of studio refurbishments in progress, and the buildout of new digital infrastructure modules.

Note 4. Operating Lease

The University leases KUOW's broadcasting and administrative facilities under a lease that expires in June 2028. Lease payments are adjusted every five years for changes in the Consumer Price Index. The next adjustment will be in the fiscal year ending June 30, 2024. KUOW reimburses the University for the payments due under the lease.

Future minimum lease payments under this lease (assuming no Consumer Price Index adjustment) are as follows for the years ending June 30:

2020	\$	906,798
2021		906,798
2022		906,798
2023		906,798
2024		906,798
Thereafter		<u>3,627,188</u>
	\$	<u><u>8,161,178</u></u>

Note 5. Board-Designated Funds Held as Endowment

As mentioned in Note 1, KUOW has an interest in an endowment held by the University. KUOW's other endowment consists of one board-designated fund established to provide long-term stability and support for the programs, operations, and activities of KUOW. As this endowment is not restricted by outside donors, it is board designated and is included with net assets without donor restrictions (referred to as a quasi-endowment).

This endowment changed in value as follows for the years ended June 30:

	<u>2019</u>	<u>2018</u>
Assets, beginning of year	\$ 4,535,481	\$ 4,195,162
Gain (loss) in value of investments	<u>(64,826)</u>	<u>340,319</u>
Endowment net assets, end of year	<u><u>\$ 4,470,655</u></u>	<u><u>\$ 4,535,481</u></u>

Interpretation of Relevant Law

Although KUOW's endowment is board-designated (and, therefore, can be withdrawn), it expects to use this money as "seed money" for future endowment growth (including donor-restricted gifts). As part of these plans, the Board of Directors of KUOW has interpreted the State of Washington Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

As a result of this interpretation, KUOW classifies gifts made by contributors as donor restricted net assets at (a) the original value of gifts donated to the permanent endowment, plus (b) the original value of subsequent gifts to the permanent endowment and accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

In accordance with UPMIFA, KUOW considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

- The duration and preservation of the endowment fund
- The purposes of KUOW and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation or deflation
- The expected total return from income and the appreciation of investments
- The investment policies of KUOW
- Other resources of KUOW

Return Objectives and Risk Parameters

KUOW has adopted investment and spending policies for endowment assets that attempt to provide a blend of portfolio appreciation and modest current income by investing primarily in equity securities with a moderate investment in fixed income investments.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, KUOW targets a diversified asset allocation, which is reviewed at least annually.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Board of Directors of KUOW established a spending policy outlining annual distribution terms for the fund. The annual distribution from the fund will be 4% to either the general operating funds of KUOW or board-specified program(s) unless otherwise altered for the period by majority vote of the Board of Directors.