

**FRIENDS OF KEXP  
DBA KEXP-FM**

**FINANCIAL STATEMENTS  
With Independent Auditor's Report**

**YEARS ENDED DECEMBER 31, 2018 AND 2017**



FRIENDS OF KEXP  
DBA KEXP-FM

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

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## INDEPENDENT AUDITOR'S REPORT

June 19, 2019

Board of Directors  
Friends of KEXP  
Seattle, Washington

We have audited the accompanying financial statements of Friends of KEXP dba KEXP-FM (a nonprofit corporation), which comprise the statements of financial position as of December 31, 2018 and 2017 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 of America; 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.

### **Auditors' 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 of America. 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 in the first paragraph of this letter present fairly, in all material respects, the financial position of Friends of KEXP dba KEXP-FM as of December 31, 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.



Jacobson Jarvis & Co, PLLC

FRIENDS OF KEXP  
DBA KEXP-FM

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 4,286,475	\$ 3,055,385
Certificates of deposit	155,166	255,993
Investments	8,980,918	7,660,196
Business support receivables, net	506,971	514,011
Pledges receivable, net	1,251,352	3,003,634
Planned giving receivable	-	2,400,000
Prepaid expenses and inventory	199,874	126,445
Property and equipment, net	8,231,492	9,149,961
Intangible assets	<u>3,885,487</u>	<u>3,885,487</u>
	<u>\$27,497,735</u>	<u>\$30,051,112</u>
 <b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 432,442	\$ 750,947
Payroll liabilities	603,242	562,387
Deferred revenue	40,072	81,803
Line of credit	-	2,659
Payable to University of Washington	<u>2,312,957</u>	<u>2,961,135</u>
	<u>3,388,713</u>	<u>4,358,931</u>
 <b>NET ASSETS</b>		
Without donor restrictions	22,287,617	21,307,475
With donor restrictions	<u>1,821,405</u>	<u>4,384,706</u>
	<u>24,109,022</u>	<u>25,692,181</u>
	<u>\$27,497,735</u>	<u>\$30,051,112</u>

FRIENDS OF KEXP  
DBA KEXP-FM

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>OPERATING SUPPORT AND REVENUE</b>						
Contributions	\$ 9,247,981	\$ 1,318,702	\$10,566,683	\$ 9,580,905	\$ 703,528	\$10,284,433
Advertising	328,302		328,302	284,564		284,564
Retail sales	720		720	30,825		30,825
Other revenue	<u>198,650</u>		<u>198,650</u>	<u>841,583</u>		<u>841,583</u>
	9,775,653	1,318,702	11,094,355	10,737,877	703,528	11,441,405
Net assets released from restrictions						
Satisfaction of program requirements	413,010	(413,010)	-	455,419	(455,419)	-
Passage of time requirements	<u>3,718,993</u>	<u>(3,718,993)</u>	<u>-</u>	<u>688,022</u>	<u>(688,022)</u>	<u>-</u>
Total operating support and revenue	<u>13,907,656</u>	<u>(2,813,301)</u>	<u>11,094,355</u>	<u>11,881,318</u>	<u>(439,913)</u>	<u>11,441,405</u>
<b>OPERATING EXPENSES</b>						
Program services	7,787,780		7,787,780	6,971,203		6,971,203
Management and general	958,297		958,297	561,754		561,754
Fundraising	<u>4,044,355</u>		<u>4,044,355</u>	<u>3,365,551</u>		<u>3,365,551</u>
Total operating expenses	<u>12,790,432</u>		<u>12,790,432</u>	<u>10,898,508</u>		<u>10,898,508</u>
Change in net assets before non-operating activity	<u>1,117,224</u>	<u>(2,813,301)</u>	<u>(1,696,077)</u>	<u>982,810</u>	<u>(439,913)</u>	<u>542,897</u>
<b>NON-OPERATING ACTIVITY</b>						
Capital Campaign contributions	-	-	-	-	273,508	273,508
Satisfaction of Capital Campaign restrictions	-	-	-	385,594	(385,594)	-
Capital project support	525,000	250,000	775,000	-	-	-
Planned giving	-	-	-	7,500,000	2,400,000	9,900,000
Investment income, gains and losses	<u>(662,082)</u>		<u>(662,082)</u>	<u>162,377</u>	<u>-</u>	<u>162,377</u>
Change in non-operating net assets	(137,082)	250,000	112,918	8,047,971	2,287,914	10,335,885
Total change in net assets	980,142	(2,563,301)	(1,583,159)	9,030,781	1,848,001	10,878,782
<b>NET ASSETS</b>						
Beginning of the year	<u>21,307,475</u>	<u>4,384,706</u>	<u>25,692,181</u>	<u>12,276,694</u>	<u>2,536,705</u>	<u>14,813,399</u>
End of the year	<u>\$22,287,617</u>	<u>\$ 1,821,405</u>	<u>\$24,109,022</u>	<u>\$21,307,475</u>	<u>\$ 4,384,706</u>	<u>\$25,692,181</u>

See notes to financial statements.

FRIENDS OF KEXP  
DBA KEXP-FM

STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018					2017				
	Support Services					Support Services				
	Program Services	Management and General	Fundraising	Total Support Services	Total	Program Services	Management and General	Fundraising	Total Support Services	Total
Salaries and wages	\$ 3,428,880	\$ 493,830	\$ 1,276,824	\$ 1,770,654	\$ 5,199,534	\$ 2,817,347	\$ 304,182	\$ 1,244,262	\$ 1,548,444	\$ 4,365,791
Employee benefits	577,169	109,309	257,555	366,864	944,033	534,905	56,123	247,486	303,609	838,514
Payroll taxes	281,116	37,252	102,467	139,719	420,835	245,068	20,533	95,916	116,449	361,517
Total payroll and related	<u>4,287,165</u>	<u>640,391</u>	<u>1,636,846</u>	<u>2,277,237</u>	<u>6,564,402</u>	<u>3,597,320</u>	<u>380,838</u>	<u>1,587,664</u>	<u>1,968,502</u>	<u>5,565,822</u>
Legal	38,285	5,498	3,157	8,655	46,940	19,463	1,710	-	1,710	21,173
Accounting	-	23,933	-	23,933	23,933	-	22,271	-	22,271	22,271
Fundraising and other	716,244	149,842	1,409,765	1,559,607	2,275,851	562,739	2,340	921,220	923,560	1,486,299
Total fees for service	<u>754,529</u>	<u>179,273</u>	<u>1,412,922</u>	<u>1,592,195</u>	<u>2,346,724</u>	<u>582,202</u>	<u>26,321</u>	<u>921,220</u>	<u>947,541</u>	<u>1,529,743</u>
Depreciation and amortization	1,240,764	14,897	115,496	130,393	1,371,157	1,043,764	41,580	173,411	214,991	1,258,755
Information technology	445,386	26,175	51,834	78,009	523,395	788,792	34,731	44,572	79,303	868,095
Occupancy	346,106	36,936	110,632	147,568	493,674	385,404	29,575	123,186	152,761	538,165
Office	140,658	16,250	292,180	308,430	449,088	87,112	8,028	220,002	228,030	315,142
Performances	272,637	2,141	6,816	8,957	281,594	198,532	118	10,279	10,397	208,929
Fundraising supplies	8,078	165	144,065	144,230	152,308	20,847	1,689	40,903	42,592	63,439
Premiums	-	-	112,589	112,589	112,589	-	-	95,952	95,952	95,952
Research	83,815	6,977	10,884	17,861	101,676	60,951	3,435	9,513	12,948	73,899
Travel	50,655	2,240	26,632	28,872	79,527	33,214	910	27,962	28,872	62,086
Dues and subscriptions	64,519	1,859	9,300	11,159	75,678	85,893	786	7,008	7,794	93,687
Human resource administration	28,912	26,464	18,045	44,509	73,421	28,030	29,937	10,133	40,070	68,100
Vehicle donation fees	-	-	48,212	48,212	48,212	-	-	35,742	35,742	35,742
Printing and design	8,955	650	31,714	32,364	41,319	8,134	547	37,854	38,401	46,535
Insurance	26,605	2,932	8,800	11,732	38,337	33,711	2,692	10,541	13,233	46,944
Meetings	16,405	902	6,784	7,686	24,091	6,323	557	8,882	9,439	15,762
Advertising and promotion	11,926	45	604	649	12,575	6,163	10	727	737	6,900
Collections and acquisitions	665	-	-	-	665	4,811	-	-	-	4,811
	<u>\$ 7,787,780</u>	<u>\$ 958,297</u>	<u>\$ 4,044,355</u>	<u>\$ 5,002,652</u>	<u>\$ 12,790,432</u>	<u>\$ 6,971,203</u>	<u>\$ 561,754</u>	<u>\$ 3,365,551</u>	<u>\$ 3,927,305</u>	<u>\$ 10,898,508</u>

See notes to financial statements.

FRIENDS OF KEXP  
DBA KEXP-FM

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from contributions	\$10,178,707	\$14,578,114
Cash received from other revenue	1,558,752	1,066,763
Cash paid to employees and suppliers	(8,578,994)	(6,856,762)
Cash paid for interest	<u>-</u>	<u>(48,712)</u>
Net Cash Provided by Operating Activities	<u>3,158,465</u>	<u>8,739,403</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(2,212,784)	(7,507,961)
Sale of investments	229,980	-
Sale of certificates of deposit	101,787	-
Purchase of property and equipment	<u>(670,535)</u>	<u>(903,372)</u>
Net Cash Used by Investing Activities	<u>(2,551,552)</u>	<u>(8,411,333)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayment of payable to University of Washington	(50,000)	(50,000)
Repayment of line of credit	(2,659)	(2,497,970)
Proceeds from contributions restricted to Capital Campaign	<u>676,836</u>	<u>1,378,171</u>
Net Cash Provided (Used) by Financing Activities	<u>624,177</u>	<u>(1,169,799)</u>
Change in Cash and Cash Equivalents	1,231,090	(841,729)
Cash and Cash Equivalents - beginning of year	<u>3,055,385</u>	<u>3,897,114</u>
Cash and Cash Equivalents - end of year	<u>\$ 4,286,475</u>	<u>\$ 3,055,385</u>



FRIENDS OF KEXP  
DBA KEXP-FM

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
<b>Reconciliation of Change in Net Assets to Net Cash Flows from Operating Activities</b>		
Change in net assets	\$ (1,583,159)	\$10,878,782
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Capital Campaign contributions	-	(273,508)
Sponsorships provided to the University in lieu of obligation repayment	(598,178)	(514,770)
Donated property	(107,500)	-
Depreciation and amortization	1,371,157	1,258,755
Reinvested earnings	(162,358)	(61,867)
Loss (gain) on investments	823,480	(91,276)
Change in:		
Business support receivables, net	7,040	(97,641)
Pledges receivable, net	1,075,446	46,318
Planned giving receivable	2,400,000	(2,400,000)
Prepaid expenses and inventory	(73,429)	(47,997)
Accounts payable and accrued expenses	6,842	65,195
Payroll liabilities	40,855	(51,475)
Deferred revenue	<u>(41,731)</u>	<u>28,887</u>
Net Cash Provided by Operating Activities	<u>\$ 3,158,465</u>	<u>\$ 8,739,403</u>

## FRIENDS OF KEXP DBA KEXP-FM

### NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

#### NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

**Nature of Activities** - Friends of KEXP, dba KEXP-FM (KEXP), is a not-for-profit corporation organized in 2001 for the purpose of operating a radio station, and currently operates as an arts organization, including the station. KEXP's mission is to enrich people's lives by championing music and discovery. Receipts are derived primarily from contributions from the organization's general audience.

**Related Entity** - KEXP is an affiliate of the University of Washington (the University), a public university in Washington State. The University has neither majority ownership nor majority voting interest. Therefore, KEXP's financial information is not consolidated with the University.

Until 2014, the University held the Federal Communications Commission license (FCC License) for the broadcast frequency of 90.3 FM, which KEXP operated on behalf of the University through a long-term management agreement (the Management Agreement). In 2014, KEXP was assigned the rights to the FCC License and other intangible assets from the University (see Note I).

In 2014, at the time the FCC License was transferred, the Management Agreement was replaced with a new cooperation agreement (the Cooperation Agreement) to reflect changes in the relationship between the University and KEXP. The Cooperation Agreement reflects the affiliation between KEXP and the University, including that KEXP's individual donor revenue is counted towards the University's fundraising goals, and that one member of KEXP's Board of Directors is an officer of the University. In addition, the University provides support for KEXP's operations, including engineering staff and fundraising staff and services. Finally, as part of the agreement, KEXP provides on-air underwriting and online advertising services for the University. In May 2017, the Cooperation Agreement was amended, clarifying the affiliate status, simplifying technology support and increasing the on-air announcements over the next two-year period.

**New Home Capital Campaign** - KEXP conducted a multi-year capital campaign (the Capital Campaign) for building a new home at the Seattle Center. KEXP's new location officially opened in April 2016 and offers flexible indoor spaces to accommodate more performances and events with public participation, better artist amenities, and up-to-date equipment that support the best possible programming.

#### Adoption of new accounting pronouncement

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 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 classification, 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. KEXP has implemented ASU 2016-14 and has adjusted the presentation in these financial statements accordingly.

FRIENDS OF KEXP DBA KEXP-FM

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of presentation

In accordance with financial accounting standards, KEXP is required to report information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions (time and purpose). The net assets of KEXP are classified as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Contributions restricted by donors are reported as increases in net assets without donor restrictions 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 net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service.

Cash and cash equivalents

For purposes of the statements of cash flows, KEXP considers all checking and savings accounts and unrestricted highly liquid investments with an initial maturity of three months or less to be cash and cash equivalents. At times, cash and cash equivalents may exceed federally insured limits. KEXP has not experienced any losses in these accounts, and management does not believe it is exposed to any significant credit risk.

Fair value measurements

In accordance with financial accounting standards, a three-tiered hierarchy of input levels is used for measuring fair value. Financial accounting standards defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Valuation techniques utilized to determine fair value are consistently applied. The three tiers of inputs used for fair value measurements are as follows:

# FRIENDS OF KEXP DBA KEXP-FM

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

### NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Level 1: Fair values are based on quoted prices in active markets for identical assets and liabilities.

Level 2: Fair values are based on observable inputs that include: quoted market prices for similar assets or liabilities; quoted market prices that are not in an active market; or other inputs that are observable in the market and can be corroborated by observable market data for substantially the full term of the assets.

Level 3: Fair values are calculated by the use of pricing models and/or discounted cash flow methodologies, and may require significant management judgment or estimation. These methodologies may result in a significant portion of the fair value being derived from unobservable data.

Assets and liabilities carried at fair value on a nonrecurring basis using level 2 inputs generally include donated goods, facilities, and services. Long-term pledges are valued on a nonrecurring basis using the net present value of future cash flows discounted at a risk-free rate of return which is a level 3 input. KEXP also uses fair value concepts to test various long-lived assets for impairment.

#### Certificates of deposit

Certificates of deposit bear interest ranging from .35% to .55% and have maturities of 6 to 35 months with penalties for early withdrawal. Any penalties for early withdrawal would not have a material effect on the financial statements.

#### Investments

Investments are measured at fair value on a recurring basis (at least annually) and consist of the following:

	Quoted Prices (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
As of December 31, 2018				
Cash equivalents	\$ 694,669	\$ -	\$ -	\$ 694,669
Mutual funds	8,286,249	-	-	8,286,249
	<u>\$ 8,980,918</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,980,918</u>
As of December 31, 2017				
Cash equivalents	\$ 131,920	\$ -	\$ -	\$ 131,920
Mutual funds	7,528,276	-	-	7,528,276
	<u>\$ 7,660,196</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,660,196</u>

FRIENDS OF KEXP DBA KEXP-FM

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business support receivables

Business support receivables are stated at net realizable value and are related to underwriting, sponsorships, and advertising support. An allowance for uncollectible balances has been established by management based upon KEXP's historical experience in the collection of balances due.

Pledges receivable

Pledges receivable are recognized in the period the pledge is received and consist of outstanding promises to give from a variety of individuals and foundations. Unconditional pledges that are expected to be collected within one year are recorded at net realizable value. Unconditional pledges that are expected to be collected in more than one year are initially recorded at fair value, which is measured at the present value of their future cash flows. The discounts on those amounts are computed using donor-specific risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. An allowance for uncollectible balances has been established by management based upon the KEXP's historical experience in the collection of balances due.

Property and equipment

All acquisitions of property and equipment and all expenditures for repairs, maintenance, renewals and betterments in excess of \$5,000 that materially prolong the useful lives of assets are capitalized. Property and equipment is carried at cost. Depreciation is computed using the straight-line method over a period of three to ten years.

Intangible assets

In 2014, KEXP capitalized the FCC License and other intangible assets including a trademark, domain name, and other intellectual property, at cost acquired in exchange for a sponsorship obligation to the University. The FCC License and other intangible assets are considered indefinite-lived assets and thus not amortized, but reviewed on an annual basis for any possible impairment. Management determined there were no events or changes in circumstance indicating an impaired value of the FCC License or other intangible assets at December 31, 2018 or 2017.

Revenue recognition

Contributions include individual donor gifts, corporate and foundation grants, underwriting and sponsorship support, and gifts for the Capital Campaign. Underwriting and sponsorships are reported as support when the conditions of the agreements are met, that is when the related underwriting and sponsorship spots are run in programming. Advertising revenue is recognized in the period the advertising occurs.

FRIENDS OF KEXP DBA KEXP-FM

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Non-operating activities

KEXP's non-operating activities represent a major Capital Campaign, one-time capital projects, and planned giving.

Donated goods, facilities and services

KEXP receives in-kind contributions in return for sponsorship of its radio programming. Donations of goods and facilities include supplies, equipment, software and program and office space and are recorded as revenue at the estimated fair value at the date of donation. Donated services are recognized as revenue and corresponding expense when (a) the services received create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the organization. In-kind contributions are included in contributions on the statements of activities.

Expense allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of functional expenses and of activities. Where possible, specific expenses have been charged directly to the appropriate category. When functions are shared or costs are intermingled, expenses are allocated based on employee counts or estimated percentage of effort.

Advertising costs

Advertising costs are expensed as incurred.

Income tax status

KEXP is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. KEXP qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi) and has been classified as an organization other than a private foundation under Section 509(a)(1). Taxable unrelated business income includes on-line advertising.

KEXP files information and tax returns in the U.S. federal jurisdiction, and state and local jurisdictions. KEXP is subject to U.S. federal, state and local examinations by tax authorities for the current year and certain prior years based on applicable laws and regulations.

Use of 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 and disclosures of contingent 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.

# FRIENDS OF KEXP DBA KEXP-FM

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

### NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Reclassifications

Certain accounts in the 2017 financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements. These reclassifications had no effect on the net assets or change in net assets as of or for the year ended December 31, 2017.

### NOTE B - RECEIVABLES

Receivables consist of the following at December 31:

	<u>2018</u>	<u>2017</u>
Pledges receivable for operations	\$ 817,775	\$ 2,165,125
Capital Campaign receivables	304,110	1,003,071
Capital project receivables	250,000	-
Planned giving receivable	-	2,400,000
Business support receivables	<u>506,971</u>	<u>514,011</u>
	1,878,856	6,082,207
Allowance for uncollectible receivables	(98,106)	(151,284)
Discount at 0.75% to 1.00%	<u>(22,427)</u>	<u>(13,278)</u>
	<u>\$ 1,758,323</u>	<u>\$ 5,917,645</u>
Gross receivables due in one year or less	\$ 1,504,300	\$ 5,777,408
Gross receivables due in one to five years	<u>374,556</u>	<u>304,799</u>
	<u>\$ 1,878,856</u>	<u>\$ 6,082,207</u>

### NOTE C - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31:

	<u>2018</u>	<u>2017</u>
Leasehold improvements	\$ 9,911,290	\$ 9,868,880
Software	943,186	723,686
Operating equipment and furniture	1,020,321	740,990
Digital library	443,412	443,412
Computers	<u>7,376</u>	<u>41,813</u>
	12,325,585	11,818,781
Less: accumulated depreciation	(4,387,166)	(3,147,677)
Work in process	<u>293,073</u>	<u>478,857</u>
	<u>\$ 8,231,492</u>	<u>\$ 9,149,961</u>

# FRIENDS OF KEXP DBA KEXP-FM

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

### NOTE D - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following programs and purposes at December 31:

	<u>2018</u>	<u>2017</u>
For future operations	\$ 1,322,412	\$ 4,038,797
Other operations	248,993	345,909
Capital project	<u>250,000</u>	<u>-</u>
	<u>\$ 1,821,405</u>	<u>\$ 4,384,706</u>

### NOTE E - IN-KIND CONTRIBUTIONS

In-kind contributions consist of the following for the years ended December 31:

	<u>2018</u>	<u>2017</u>
Donated goods	\$ 740,253	\$ 747,397
Donated services	2,006,453	1,867,358
Donated facility usage	<u>243,641</u>	<u>230,189</u>
	<u>\$ 2,990,347</u>	<u>\$ 2,844,944</u>

Related in-kind expenses consist of the following for the years ended December 31:

	<u>2018</u>	<u>2017</u>
Program services related	\$ 1,284,758	\$ 1,180,813
Management and general related	76,454	50,502
Fundraising related	<u>1,041,261</u>	<u>1,098,859</u>
	<u>\$ 2,402,473</u>	<u>\$ 2,330,174</u>

The difference between in-kind revenue and in-kind expense in 2018 and 2017 is due to the donated pay-down to University of Washington of the FCC License of \$598,178 and \$514,770, respectively. (See Note I)

### NOTE F - CONCENTRATIONS

One bequest composed 45% of total support and revenue in the year ended December 31, 2017.

### NOTE G - EMPLOYEE BENEFIT PLAN

KEXP has adopted a 403(b) contribution pension plan for all full-time employees. The amount of KEXP's contribution to the plan is determined annually at the discretion of the Board of Directors. Contributions to the plan totaled \$276,201 and \$236,298 for the years ended December 31, 2018 and 2017, respectively.



# FRIENDS OF KEXP DBA KEXP-FM

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

### NOTE H - COMMITMENTS

KEXP signed a lease for space at the Seattle Center that expires in 2025. The lease requires a combination of cash payments and sponsorships provided to the landlord over the life of the lease. Future minimum cash and sponsorship payments under this lease are as follows for the years ending December 31:

	<u>Cash</u>	<u>Sponsorships</u>	<u>Total</u>
2019	\$ 62,500	\$ 228,000	\$ 290,500
2020	63,646	232,180	295,826
2021	64,919	236,823	301,742
2022	66,218	241,560	307,778
2023	67,542	246,392	313,934
Thereafter	<u>74,643</u>	<u>272,297</u>	<u>346,940</u>
	<u>\$ 399,468</u>	<u>\$ 1,457,252</u>	<u>\$ 1,856,720</u>

The future minimum lease obligation on the Seattle Center space is offset by a sublease, with expected future minimum rental income as follows for the years ending December 31:

2019	\$ 30,757
2020	31,680
2021	32,626
2022	33,606
2023	34,618
Thereafter	<u>69,234</u>
	<u>\$ 232,521</u>

KEXP also signed a lease that expires in 2026 with a third party for tower transmission space. Future minimum lease payments under this lease are as follows for the years ending December 31:

2019	\$ 79,675
2020	80,530
2021	81,410
2022	82,317
2023	83,251
Thereafter	<u>190,781</u>
	<u>\$ 597,964</u>

KEXP entered into a construction contract in relation to its Capital Campaign totaling approximately \$5.5 million. The president of the construction company is also a board member of KEXP. KEXP incurred \$229,608 and \$324,360 of construction costs to this construction company during the years ending December 31, 2018 and 2017, respectively.

# FRIENDS OF KEXP DBA KEXP-FM

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

### NOTE I - RELATED ENTITY ACTIVITY

In 2005, KEXP issued an interest-free note payable to the University for \$250,000 to assist in restructuring staffing capacity. The intent of the funds has been fully executed. In accordance with the amended Cooperation Agreement, the University requires repayments of the note payable through 2020. Repayments are as follows for the years ending December 31:

2019	\$ 50,000
2020	50,000
	<u>\$ 100,000</u>

In 2014, KEXP acquired an FCC License, other intangible assets, and equipment from the University in exchange for a sponsorship obligation. The assets acquired were appraised at \$4,001,100. KEXP allocated \$115,613 of the appraised value to equipment, based on estimated fair value, and the remaining value to the FCC License and other intangible assets. In lieu of cash repayments, the sponsorship obligation is satisfied by performing sponsorships for the University over a ten-year period.

During 2018 and 2017, KEXP provided sponsorships valued at \$598,178 and \$514,770, respectively, to the University, and therefore recognized sponsorship revenue and reduced the obligation by these amounts. Sponsorships performed as repayment of the sponsorship obligation are expected to be as follows for the years ending December 31:

2019	\$ 400,110
2020	400,110
2021	400,110
2022	400,110
2023	400,110
Thereafter	212,407
	<u>\$ 2,212,957</u>

The following transactions occurred between KEXP and the University during the years ended December 31:

	<u>2018</u>	<u>2017</u>
Support and revenue		
In-kind contributions	\$ 1,071,054	\$ 1,136,956
Information technology settlement	-	706,000
Use of sponsorship obligation	598,178	499,770
Underwriting contribution	22,228	29,898
	<u>\$ 1,691,460</u>	<u>\$ 2,372,624</u>

# FRIENDS OF KEXP DBA KEXP-FM

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

### NOTE I - RELATED ENTITY ACTIVITY (Continued)

	<u>2018</u>	<u>2017</u>
Expenses		
In-kind information technology	\$ 156,967	\$ 155,522
In-kind fundraising		
and other fees for service	<u>914,087</u>	<u>981,434</u>
In-kind expenses	1,071,054	1,136,956
Payroll and related	133,699	66,926
Other expenses	<u>65,893</u>	<u>80,632</u>
	<u>\$ 1,270,646</u>	<u>\$ 1,284,514</u>

The following amounts are due to the University at December 31:

	<u>2018</u>	<u>2017</u>
Note payable	\$ 100,000	\$ 150,000
Sponsorship obligation	<u>2,212,957</u>	<u>2,811,135</u>
	<u>\$ 2,312,957</u>	<u>\$ 2,961,135</u>

### NOTE J - LIQUIDITY

KEXP receives significant contributions and promises to give restricted by donors, and considers contributions restricted for programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. KEXP manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged.

KEXP has a liquidity policy to maintain current financial assets less current liabilities at a minimum of 60 days' operating expenses. KEXP has a policy to target a year-end balance of reserves of undesignated net assets without donor restrictions to meet 30 to 60 days of expected expenditures. To achieve these targets, KEXP forecasts its future cash flows and monitors its liquidity quarterly, and monitors its reserves annually. During the years ended December 31, 2018 and 2017, the level of liquidity and reserves was managed within the policy requirements.

Total financial assets	\$15,180,882
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Less amounts not available to be used within one year:

Endowment investments	(8,980,918)
Donor imposed purpose restrictions	(498,993)
Long-term receivables	<u>(374,556)</u>
Financial Assets Available for Operations Within One Year	<u>\$ 5,326,415</u>

FRIENDS OF KEXP DBA KEXP-FM

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

**NOTE K - BOARD-DESIGNATED QUASI-ENDOWMENT FUND**

KEXP's endowment fund consists of one board-designated quasi-endowment fund established with proceeds from an estate gift to fund a combination of one-time spending and ongoing initiatives. One-time spending will support future infrastructure and capacity upgrades. Ongoing initiatives may include growth initiatives, new mission-driving services, and achievement of strategic plan objectives.

As required by financial accounting standards, net assets associated with endowment funds, including funds designated by the board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Endowments in Washington State are governed by the "Uniform Prudent Management of Institutional Funds Act," UPMIFA, as stated in the Revised Code of Washington (RCW) 24.55.

**Return Objectives, Risk Parameters, and Strategies Employed for Achieving Objectives**

The long-term objective for KEXP is to earn a total rate of return from investment assets which shall exceed demands placed on the portfolio to support KEXP's spending policy, plus the rate of inflation.

The Finance Committee is responsible for target and actual asset allocation for the investments that best meet the needs of KEXP. The investment portfolio shall be broadly diversified, with no disproportionate or extreme positions that might cause significant diminution of value given adverse developments. The Finance Committee periodically reviews the asset allocation to deem that it is appropriate for KEXP objectives.

KEXP's investment policy guidelines are reviewed and reconfirmed or revised on at least an annual basis. Performance of KEXP's investments is reviewed on a regular basis by the Board of Directors.

**Spending Policy**

KEXP has developed spending guidelines that will be adopted as an official spending policy within the next year. The withdrawal rate will be reviewed on an annual basis by the Finance Committee. A 90% board vote is required to spend outside the policy or to change the policy and a 75% board vote is required to approve initiatives within the current policy parameters.

FRIENDS OF KEXP DBA KEXP-FM

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE K - BOARD-DESIGNATED QUASI-ENDOWMENT FUND (Continued)

Changes in Board-Designated Quasi-Endowment Net Assets for the Year Ended December 31, 2018:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated quasi-endowment, beginning of year	\$ -	\$ -	\$ -
Contributions, net	<u>9,872,980</u>	<u>-</u>	<u>9,872,980</u>
Investment return:			
Reinvested earnings, net of fees of \$45,686	161,398	-	161,398
Net investment loss	<u>(823,480)</u>	<u>-</u>	<u>(823,480)</u>
Total Investment Return	<u>(662,082)</u>	<u>-</u>	<u>(662,082)</u>
Appropriated for expenditure	<u>(229,980)</u>	<u>-</u>	<u>(229,980)</u>
Board-designated quasi-endowment, end of year	<u>\$ 8,980,918</u>	<u>\$ -</u>	<u>\$ 8,980,918</u>

NOTE L - SUBSEQUENT EVENTS

Management has evaluated events occurring subsequent to December 31, 2018 through June 19, 2019, which is the date the financial statements were available to be issued, and has recognized in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at December 31, 2018, including the estimates inherent in the processing of financial statements.