

**KUOW / PUGET SOUND PUBLIC RADIO**

FINANCIAL REPORT

JUNE 30, 2016

## C O N T E N T S

	<b>Page</b>
<b>INDEPENDENT AUDITORS' REPORT .....</b>	<b>1</b>
<b>FINANCIAL STATEMENTS</b>	
STATEMENTS OF FINANCIAL POSITION .....	2
STATEMENTS OF ACTIVITIES.....	3
STATEMENT OF FUNCTIONAL EXPENSES – 2016 .....	4
STATEMENT OF FUNCTIONAL EXPENSES – 2015 .....	5
STATEMENTS OF CASH FLOWS .....	6
NOTES TO FINANCIAL STATEMENTS .....	7 - 14

**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, 2016 and 2015, 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, 2016 and 2015, 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.*

October 27, 2016

**KUOW / PUGET SOUND PUBLIC RADIO**

## STATEMENTS OF FINANCIAL POSITION

June 30, 2016 and 2015

ASSETS	2016	2015
Current Assets		
Cash	\$ 3,608,845	\$ 5,061,606
Deposit held in escrow	350,000	
Investments	5,635,742	5,765,731
Accounts receivable	396,436	612,417
Prepaid expenses	63,403	67,120
Total current assets	10,054,426	11,506,874
Investments Held for Endowment	3,795,053	3,883,315
Interest in Endowment Held by the University	70,755	76,084
Property, Plant, and Equipment, net	1,524,522	1,900,544
Total assets	<u>\$ 15,444,756</u>	<u>\$ 17,366,817</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 17,128	\$ 63,779
Deferred revenue	151,000	
Total liabilities	168,128	63,779
Net Assets		
Unrestricted	15,154,729	17,158,485
Temporarily restricted	51,144	68,469
Permanently restricted	70,755	76,084
Total net assets	<u>15,276,628</u>	<u>17,303,038</u>
Total liabilities and net assets	<u>\$ 15,444,756</u>	<u>\$ 17,366,817</u>

See Notes to Financial Statements

**KUOW / PUGET SOUND PUBLIC RADIO**

STATEMENTS OF ACTIVITIES

For the Years Ended June 30, 2016 and 2015

	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenue and Support</b>								
Listener support	\$ 7,214,632	\$ 10,000	\$ -	\$ 7,224,632	\$ 7,352,044	\$ -	\$ -	\$ 7,352,044
Underwriting	3,651,627			3,651,627	4,347,317			4,347,317
Community service grant from Corporation for Public Broadcasting	726,486			726,486	787,162			787,162
Other grants and contributions	231,587			231,587	149,574	1,000		150,574
Ancillary revenue	26,228			26,228	26,929			26,929
Interest and dividend income	153,401			153,401	202,522			202,522
Donated services and supplies	78,517			78,517	74,180			74,180
Direct support from the University	122,787			122,787	143,304			143,304
Indirect support from the University	90,418			90,418	92,647			92,647
	<u>12,295,683</u>	<u>10,000</u>		<u>12,305,683</u>	<u>13,175,679</u>	<u>1,000</u>		<u>13,176,679</u>
Net assets released from restrictions	27,325	(27,325)			69,286	(69,286)		
<b>Total revenue and support</b>	<b>12,323,008</b>	<b>(17,325)</b>		<b>12,305,683</b>	<b>13,244,965</b>	<b>(68,286)</b>		<b>13,176,679</b>
<b>Expenses</b>								
Program services								
Programming and production	6,852,313			6,852,313	6,125,570			6,125,570
Broadcasting	1,727,818			1,727,818	1,655,797			1,655,797
Public information	1,365,778			1,365,778	978,524			978,524
	<u>9,945,909</u>			<u>9,945,909</u>	<u>8,759,891</u>			<u>8,759,891</u>
Supporting services								
Listener support	1,674,824			1,674,824	1,252,320			1,252,320
General and administrative	1,110,408			1,110,408	1,202,962			1,202,962
Underwriting	1,228,253			1,228,253	1,029,232			1,029,232
	<u>4,013,485</u>			<u>4,013,485</u>	<u>3,484,514</u>			<u>3,484,514</u>
<b>Total expenses</b>	<b>13,959,394</b>			<b>13,959,394</b>	<b>12,244,405</b>			<b>12,244,405</b>
Change in net assets before investment gain (loss)	(1,636,386)	(17,325)		(1,653,711)	1,000,560	(68,286)		932,274
Investment gain (loss)	(367,370)		(5,329)	(372,699)	141,765		3,593	145,358
<b>Change in net assets</b>	<b>(2,003,756)</b>	<b>(17,325)</b>	<b>(5,329)</b>	<b>(2,026,410)</b>	<b>1,142,325</b>	<b>(68,286)</b>	<b>3,593</b>	<b>1,077,632</b>
Net Assets, beginning of year	17,158,485	68,469	76,084	17,303,038	16,016,160	136,755	72,491	16,225,406
Net Assets, end of year	<u>\$ 15,154,729</u>	<u>\$ 51,144</u>	<u>\$ 70,755</u>	<u>\$ 15,276,628</u>	<u>\$ 17,158,485</u>	<u>\$ 68,469</u>	<u>\$ 76,084</u>	<u>\$ 17,303,038</u>

See Notes to Financial Statements

**KUOW / PUGET SOUND PUBLIC RADIO**

**STATEMENT OF FUNCTIONAL EXPENSES**

For the Year Ended June 30, 2016

	Program Services				Supporting Services				
	Programming and Production	Broadcasting	Public Information	Total Program Services	Listener Support	General and Administrative	Underwriting	Total Supporting Services	Total
Salaries and benefits, including pension expense of \$479,095	\$ 4,002,561	\$ 643,915	\$ 895,200	\$ 5,541,676	\$ 754,919	\$ 657,483	\$ 665,444	\$ 2,077,846	\$ 7,619,522
Professional services	230,566	27,944	218,248	476,758	39,151	238,670	16,758	294,579	771,337
Contract services									
Telecommunications	43,203	43,385	5,367	91,955	11,701	11,190	5,799	28,690	120,645
Printing			23,156	23,156	90,249	1,265		91,514	114,670
Postage	2,365	925	4,578	7,868	253,312	2,187	1,004	256,503	264,371
Program acquisition	2,087,171	8,886		2,096,057					2,096,057
Rent	192,781	448,862	22,513	664,156	34,683	32,490	52,409	119,582	783,738
Agency and processing fees					221,922	14,706	360,479	597,107	597,107
Other contract services	62,932	131,484	43,297	237,713	70,935	91,065	72,109	234,109	471,822
Travel	40,672	2,011	20,872	63,555	50	13,396	603	14,049	77,604
Supplies	11,617	139,032	43,632	194,281	158,952	13,813	2,157	174,922	369,203
Miscellaneous						6,555	18,926	25,481	25,481
Depreciation and amortization	119,726	273,453	12,451	405,630	21,551	19,156	32,565	73,272	478,902
Total expenses before donated services and similar	6,793,594	1,719,897	1,289,314	9,802,805	1,657,425	1,101,976	1,228,253	3,987,654	13,790,459
Donated services and supplies and indirect support from the University	58,719	7,921	76,464	143,104	17,399	8,432		25,831	168,935
	<u>\$ 6,852,313</u>	<u>\$ 1,727,818</u>	<u>\$ 1,365,778</u>	<u>\$ 9,945,909</u>	<u>\$ 1,674,824</u>	<u>\$ 1,110,408</u>	<u>\$ 1,228,253</u>	<u>\$ 4,013,485</u>	<u>\$ 13,959,394</u>

See Notes to Financial Statements

**KUOW / PUGET SOUND PUBLIC RADIO**

**STATEMENT OF FUNCTIONAL EXPENSES**

For the Year Ended June 30, 2015

	Program Services				Supporting Services				
	Programming and Production	Broadcasting	Public Information	Total Program Services	Listener Support	General and Administrative	Underwriting	Total Supporting Services	Total
Salaries and benefits, including pension expense of \$416,989	\$ 3,440,412	\$ 613,162	\$ 664,915	\$ 4,718,489	\$ 527,088	\$ 632,373	\$ 508,063	\$ 1,667,524	\$ 6,386,013
Professional services	139,023	23,227	77,960	240,210	9,636	20,580	265,602	295,818	536,028
Contract services									
Telecommunications	39,113	46,135	4,676	89,924	8,728	5,399	10,018	24,145	114,069
Printing			32,387	32,387	140,043		1,516	141,559	173,946
Postage	2,652	821	8,570	12,043	196,124	898	2,740	199,762	211,805
Program acquisition	2,059,993	8,607		2,068,600					2,068,600
Rent	171,502	400,039	21,901	593,442	30,827	46,583	28,402	105,812	699,254
Agency and processing fees					217,376	434,693	14,675	666,744	666,744
Other contract services	53,216	153,053	34,413	240,682	22,434	17,302	122,043	161,779	402,461
Travel	32,256	9,139	14,562	55,957		1,177	10,913	12,090	68,047
Supplies	9,582	124,404	59,384	193,370	58,492	1,438	5,861	65,791	259,161
Bad debt expense						10,500		10,500	10,500
Miscellaneous							10,072	10,072	10,072
Depreciation and amortization	117,720	268,872	12,242	398,834	21,190	32,019	18,835	72,044	470,878
Total expenses before donated services and similar	6,065,469	1,647,459	931,010	8,643,938	1,231,938	1,202,962	998,740	3,433,640	12,077,578
Donated services and supplies and indirect support from the University	60,101	8,338	47,514	115,953	20,382		30,492	50,874	166,827
	<u>\$ 6,125,570</u>	<u>\$ 1,655,797</u>	<u>\$ 978,524</u>	<u>\$ 8,759,891</u>	<u>\$ 1,252,320</u>	<u>\$ 1,202,962</u>	<u>\$ 1,029,232</u>	<u>\$ 3,484,514</u>	<u>\$ 12,244,405</u>

See Notes to Financial Statements

**KUOW / PUGET SOUND PUBLIC RADIO**

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities		
Change in net assets	\$ (2,026,410)	\$ 1,077,632
Adjustments to reconcile change in net assets to cash flows provided by operating activities		
Depreciation and amortization	478,902	470,878
Loss (gain) on investments	372,699	(145,565)
Change in operating assets and liabilities		
Accounts receivable	215,981	61,534
Prepaid expenses	3,717	(25,106)
Accounts payable and accrued expenses	(46,651)	(428,218)
Deferred revenue	151,000	
	<u>(850,762)</u>	<u>1,011,155</u>
Cash Flows from Investing Activities		
Deposit held in escrow	(350,000)	
Acquisitions of property and equipment	(102,880)	(35,974)
Purchase of investments	(149,119)	(2,184,278)
Sales of investments		2,000,000
	<u>(601,999)</u>	<u>(220,252)</u>
<b>Change in cash</b>	<b>(1,452,761)</b>	<b>790,903</b>
Cash, beginning of year	<u>5,061,606</u>	<u>4,270,703</u>
Cash, end of year	<u>\$ 3,608,845</u>	<u>\$ 5,061,606</u>

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 non-profit 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 operates three public radio stations currently:

- KUOW-FM Seattle,
- KUOW Tumwater, and
- 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 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. If temporarily restricted contributions are received and the restrictions are met in the period received, they are recorded as unrestricted revenue.

#### **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.

### **Temporarily Restricted Net Assets**

Temporarily restricted net assets consist of the following at June 30:

	<u>2016</u>	<u>2015</u>
Wayne C. Roth Fund	\$ 51,144	\$ 50,566
Program Venture Fund		17,903
	<u>\$ 51,144</u>	<u>\$ 68,469</u>

### **Permanently Restricted Net Assets / Interest in Endowment Held by the University**

Permanently restricted net assets consist of an endowment held by the University. The assets 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. The income is to be used to support the operations of KUOW.

### **Functional Allocation of Expenses**

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

### **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>2016</u>	<u>2015</u>
Contributed radio acknowledgements	\$ 10,998	\$ 10,998
Supplies	67,519	63,182
	<u>\$ 78,517</u>	<u>\$ 74,180</u>

Direct support from the University (amounting to \$122,787 in 2016 and \$143,304 in 2015) 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 \$90,418 and \$92,647 for the years ended June 30, 2016 and 2015, respectively.

On the Statements of Functional Expenses, the 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>2016</u>	<u>2015</u>
Donated services and supplies	\$ 78,517	\$ 74,180
Indirect support from the University	<u>90,418</u>	<u>92,647</u>
	<u>\$ 168,935</u>	<u>\$ 166,827</u>

In addition, many individuals volunteer their time and perform a variety of tasks for KUOW, but these services do not meet the criteria for recognition in the financial statements as contributed services. The estimated value of these services (based on entry-level wage rates) was approximately \$35,000 and \$30,000 for the years ended June 30, 2016 and 2015, respectively. These services are not recognized in these financial statements.

### **Cash**

Cash consists of cash in 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 under Securities Investor Protection Corporation. To mitigate this risk, management believes it has selected financially sound banks to hold its funds.

### **Deposit Held in Escrow**

During 2016, KUOW entered into an agreement to purchase another public radio station, KPLU, and deposited \$350,000 to be held in escrow until the purchase closed. Another non-profit organization made an offer to purchase the station, and KUOW decided to cancel its agreement to purchase the station. The deposit was returned to KUOW subsequent to year-end.

### **Investments**

Investments are stated at fair value. Investments include mutual funds, exchange-traded funds, and common stocks. These investments are valued using Level 1 inputs. 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 net asset value of the underlying investments and are considered Level 2 in the fair-value hierarchy. The investments have no redemption restrictions and have no future funding requirements.

Investments are summarized as follows:

	2016	2015
Mutual Funds and Exchange-Traded Funds		
Domestic Equity - Large blend	\$ 782,416	\$ 768,766
Domestic Equity - Small/Mid cap	588,357	615,671
International Equity - Developed markets	396,315	446,533
International Equity - Emerging markets	123,552	140,552
Real Estate Investment Trust	435,552	400,212
Fixed Income - Intermediate duration	551,070	522,303
Fixed Income - Global	557,833	520,457
Bernstein Multi-Manager Alternative Fund	800,438	886,324
Bernstein Dynamic Asset Allocation Overlays		
Overlay A	1,100,907	1,169,926
Overlay B	299,302	294,987
	<u>\$ 5,635,742</u>	<u>\$ 5,765,731</u>

Investments held for the endowment are summarized as follows:

	2016	2015
Mutual Funds and Exchange-Traded Funds		
Domestic Equity - Large blend	\$ 528,068	\$ 518,855
Domestic Equity - Small/mid cap	395,280	414,581
International Equity - Developed markets	267,604	300,660
International Equity - Emerging markets	82,931	93,633
Real Estate Investment Trust	294,498	268,798
Fixed Income - Intermediate duration	370,364	352,233
Fixed Income - Global	373,681	350,485
Bernstein Multi-Manager Alternative Fund	539,723	597,636
Bernstein Dynamic Asset Allocation Overlays		
Overlay A	741,084	787,524
Overlay B	201,820	198,910
	<u>\$ 3,795,053</u>	<u>\$ 3,883,315</u>

### **Accounts Receivable**

Almost all subscribers are located in the Pacific Northwest. Also, almost all underwriting fees come from companies located in the Pacific Northwest. Most accounts receivable relate to underwriting. These 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 \$73,673 and \$56,849 at June 30, 2016 and 2015, respectively.

### **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.

### **Deferred Revenue**

Deferred revenue consists of two grants received in 2016 that relate to projects expected to be performed in 2017. KUOW will recognize the associated revenue when the work related to the grant has taken place and the funds have been earned.

### **Revenue**

Listener support (individual subscriptions) represents amounts given or pledged by individuals. Subscription revenue is recognized as the payments are made, as memberships may be canceled at any time by the donor, unless there are conditions placed by the donor.

Underwriting fees are recognized when the related programming is aired.

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 \$2,903,077 and \$2,485,774 for the years ended June 30, 2016 and 2015, respectively. 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.

### **Subsequent Events**

KUOW has evaluated subsequent events through the date these financial statements were available to be issued, which was October 27, 2016.

## Note 2. Property, Plant, and Equipment

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

	<u>2016</u>	<u>2015</u>
Leasehold improvements	\$ 5,146,070	\$ 5,146,070
Equipment	<u>4,299,750</u>	<u>4,196,870</u>
	9,445,820	9,342,940
Less accumulated depreciation and amortization	<u>(7,926,898)</u>	<u>(7,447,996)</u>
	1,518,922	1,894,944
Land	<u>5,600</u>	<u>5,600</u>
	<u>\$ 1,524,522</u>	<u>\$ 1,900,544</u>

## Note 3. 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, 2019. KUOW reimburses the University for the payments due under the lease.

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

2017	\$ 681,305
2018	681,305
2019	681,305
2020	681,305
2021	681,305
Thereafter	<u>4,769,135</u>
	<u>\$ 8,175,660</u>

#### **Note 4. 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 unrestricted net assets (referred to as a quasi-endowment). This endowment changed in value as follows for the years ended June 30:

	<u>2016</u>	<u>2015</u>
Assets, beginning of year	\$ 3,883,315	\$ 1,817,026
Board-designation during the year		2,000,000
Gain or loss on value of investments	<u>(88,262)</u>	<u>66,289</u>
Endowment net assets, end of year	<u>\$ 3,795,053</u>	<u>\$ 3,883,315</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 permanently 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 plans to establish a payout percentage for the fund, but has not yet done so. Under current policy, distributions may be made from the fund if the board determines, by the vote of eighty percent of the directors, that without such distributions KUOW will likely be required to materially reduce its programs, operations, or activities.

### **Note 5. Fair Value Measurements**

As previously mentioned, KUOW's investments (current investments and those held for the endowment), and its interest in the endowment held by the University are stated at fair value. These amounts are classified as follows:

	2016			
	Level 1	Level 2	Level 3	Total
Current investments	\$ 3,435,095	\$ 2,200,647	\$ -	\$ 5,635,742
Investments held for endowment	2,312,426	1,482,627		3,795,053
Interest in endowment held by the University			70,755	70,755
Total	<u>\$ 5,747,521</u>	<u>\$ 3,683,274</u>	<u>\$ 70,755</u>	<u>\$ 9,501,550</u>

  

	2015			
	Level 1	Level 2	Level 3	Total
Current investments	\$ 3,414,494	\$ 2,351,237	\$ -	\$ 5,765,731
Investments held for endowment	2,299,245	1,584,070		3,883,315
Interest in endowment held by the University			76,084	76,084
Total	<u>\$ 5,713,739</u>	<u>\$ 3,935,307</u>	<u>\$ 76,084</u>	<u>\$ 9,725,130</u>

Changes in assets valued using Level 3 inputs are as follows for the years ended June 30:

	2016	2015
Assets, beginning of year	\$ 76,084	\$ 72,491
Unrealized gain (loss)	(5,329)	3,593
Assets, end of year	<u>\$ 70,755</u>	<u>\$ 76,084</u>

The value of Level 3 assets is provided by the University.