

KUOW / PUGET SOUND PUBLIC RADIO

FINANCIAL REPORT

JUNE 30, 2017

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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, 2017 and 2016, 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, 2017 and 2016, 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 26, 2017

KUOW / PUGET SOUND PUBLIC RADIO

STATEMENTS OF FINANCIAL POSITION

June 30, 2017 and 2016

ASSETS	<u>2017</u>	<u>2016</u>
Current Assets		
Cash	\$ 2,542,751	\$ 3,608,845
Deposit held in escrow		350,000
Investments	6,209,550	5,635,742
Accounts receivable, net	556,197	396,436
Prepaid expenses	54,761	63,403
	<u>9,363,259</u>	<u>10,054,426</u>
Investments Held for Endowment	4,195,162	3,795,053
Interest in Endowment Held by the University	75,961	70,755
Property, Plant, and Equipment, net	1,840,735	1,524,522
	<u>\$ 15,475,117</u>	<u>\$ 15,444,756</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 131,251	\$ 17,128
Deferred revenue		151,000
	<u>131,251</u>	<u>168,128</u>
Net Assets		
Unrestricted	15,142,010	15,154,729
Temporarily restricted	125,895	51,144
Permanently restricted	75,961	70,755
	<u>15,343,866</u>	<u>15,276,628</u>
Total liabilities and net assets	<u>\$ 15,475,117</u>	<u>\$ 15,444,756</u>

See Notes to Financial Statements

KUOW / PUGET SOUND PUBLIC RADIO

STATEMENTS OF ACTIVITIES

For the Years Ended June 30, 2017 and 2016

	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Support								
Listener support	\$ 9,503,077	\$ 34,800	\$ -	\$ 9,537,877	\$ 7,214,632	\$ 10,000	\$ -	\$ 7,224,632
Underwriting	3,762,482			3,762,482	3,651,627			3,651,627
Community service grant from Corporation for Public Broadcasting	744,153			744,153	726,486			726,486
Other grants and contributions	422,738	42,316		465,054	257,815			257,815
Interest and dividend income	159,078			159,078	153,401			153,401
Donated services and supplies	46,039			46,039	78,517			78,517
Direct support from the University	127,462			127,462	122,787			122,787
Indirect support from the University	118,498			118,498	90,418			90,418
	14,883,527	77,116		14,960,643	12,295,683	10,000		12,305,683
Net Assets Released from Restrictions	2,365	(2,365)			27,325	(27,325)		
Total revenue and support	14,885,892	74,751		14,960,643	12,323,008	(17,325)		12,305,683
Expenses								
Program services								
Programming and production	7,528,120			7,528,120	6,852,313			6,852,313
Broadcasting	1,493,675			1,493,675	1,727,818			1,727,818
Public information	1,906,217			1,906,217	1,365,778			1,365,778
	10,928,012			10,928,012	9,945,909			9,945,909
Supporting services								
Listener support	2,423,765			2,423,765	1,674,824			1,674,824
General and administrative	1,116,710			1,116,710	1,110,408			1,110,408
Underwriting	1,255,400			1,255,400	1,228,253			1,228,253
	4,795,875			4,795,875	4,013,485			4,013,485
Total expenses	15,723,887			15,723,887	13,959,394			13,959,394
Change in Net Assets before Investment Gain (Loss)	(837,995)	74,751		(763,244)	(1,636,386)	(17,325)		(1,653,711)
Investment gain (loss)	825,276		5,206	830,482	(367,370)		(5,329)	(372,699)
Change in net assets	(12,719)	74,751	5,206	67,238	(2,003,756)	(17,325)	(5,329)	(2,026,410)
Net Assets, beginning of year	15,154,729	51,144	70,755	15,276,628	17,158,485	68,469	76,084	17,303,038
Net Assets, end of year	\$ 15,142,010	\$ 125,895	\$ 75,961	\$ 15,343,866	\$ 15,154,729	\$ 51,144	\$ 70,755	\$ 15,276,628

See Notes to Financial Statements

KUOW / PUGET SOUND PUBLIC RADIO

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2017

	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 \$514,153	\$ 4,228,499	\$ 660,676	\$ 1,170,921	\$ 6,060,096	\$ 983,955	\$ 625,943	\$ 645,554	\$ 2,255,452	\$ 8,315,548
Professional services	277,333	152,706	246,787	676,826	89,888	69,007	9,762	168,657	845,483
Supplies	12,263	266,867	12,076	291,206	384,114	54,348	1,825	440,287	731,493
Contract services									
Program acquisition	2,110,053			2,110,053					2,110,053
Rent	420,881	70,551	162,612	654,044	105,220	96,747	76,524	278,491	932,535
Agency and processing fees					308,502	44,542	345,553	698,597	698,597
Other contract services	93,763	226,942	107,440	428,145	33,282	123,355	82,455	239,092	667,237
Postage	114	1,136	25	1,275	237,157	1,967	1,001	240,125	241,400
Printing	2,155	327	37,593	40,075	154,822	1,763	374	156,959	197,034
Telecommunications	39,720	73,247	14,336	127,303	12,399	8,036	6,315	26,750	154,053
Travel	59,555	9,351	8,412	77,318	20,515	34,245	10,423	65,183	142,501
Miscellaneous					411	742	14,903	16,056	16,056
Depreciation and amortization	214,826	22,854	127,983	365,663	59,420	45,711	36,566	141,697	507,360
Total expenses before donated services and similar	7,459,162	1,484,657	1,888,185	10,832,004	2,389,685	1,106,406	1,231,255	4,727,346	15,559,350
Donated services and supplies and indirect support from the University	68,958	9,018	18,032	96,008	34,080	10,304	24,145	68,529	164,537
	<u>\$ 7,528,120</u>	<u>\$ 1,493,675</u>	<u>\$ 1,906,217</u>	<u>\$ 10,928,012</u>	<u>\$ 2,423,765</u>	<u>\$ 1,116,710</u>	<u>\$ 1,255,400</u>	<u>\$ 4,795,875</u>	<u>\$ 15,723,887</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
Supplies	11,617	139,032	43,632	194,281	158,952	13,813	2,157	174,922	369,203
Contract services									
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
Postage	2,365	925	4,578	7,868	253,312	2,187	1,004	256,503	264,371
Printing			23,156	23,156	90,249	1,265		91,514	114,670
Telecommunications	43,203	43,385	5,367	91,955	11,701	11,190	5,799	28,690	120,645
Travel	40,672	2,011	20,872	63,555	50	13,396	603	14,049	77,604
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

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities		
Change in net assets	\$ 67,238	\$ (2,026,410)
Adjustments to reconcile change in net assets to cash flows provided by operating activities		
Depreciation and amortization	507,360	478,902
Loss (gain) on investments	(830,482)	372,699
Change in operating assets and liabilities		
Accounts receivable	(159,761)	215,981
Prepaid expenses	8,642	3,717
Accounts payable and accrued expenses	114,123	(46,651)
Deferred revenue	(151,000)	151,000
	(443,880)	(850,762)
Cash Flows from Investing Activities		
Deposit held in escrow	350,000	(350,000)
Acquisitions of property and equipment	(823,573)	(102,880)
Purchase of investments	(148,641)	(149,119)
	(622,214)	(601,999)
Change in cash	(1,066,094)	(1,452,761)
Cash, beginning of year	3,608,845	5,061,606
Cash, end of year	\$ 2,542,751	\$ 3,608,845

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 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>2017</u>	<u>2016</u>
Wayne C. Roth Fund	\$ 58,779	\$ 51,144
Community Engagement	67,116	
	<u>\$ 125,895</u>	<u>\$ 51,144</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.

Changes in this investment balance are as follows for the years ended June 30:

	<u>2017</u>	<u>2016</u>
Assets, beginning of year	\$ 70,755	\$ 76,084
Unrealized gain (loss)	5,206	(5,329)
Assets, end of year	<u>\$ 75,961</u>	<u>\$ 70,755</u>

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

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>2017</u>	<u>2016</u>
Contributed radio acknowledgements	\$ 10,998	\$ 10,998
Supplies	35,041	67,519
	<u>\$ 46,039</u>	<u>\$ 78,517</u>

Direct support from the University (amounting to \$127,462 in 2017 and \$122,787 in 2016) 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 \$118,498 and \$90,418 for the years ended June 30, 2017 and 2016, 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>2017</u>	<u>2016</u>
Donated services and supplies	\$ 46,039	\$ 78,517
Indirect support from the University	<u>118,498</u>	<u>90,418</u>
	<u>\$ 164,537</u>	<u>\$ 168,935</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, 2017, KUOW had over-paid for these reimbursements and was due \$37,735 from the University. As of June 30, 2016, the payable due to the University was \$13,278.

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 \$34,000 and \$35,000 for the years ended June 30, 2017 and 2016, 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 by the Securities Investor Protection Corporation. To mitigate this risk, management believes it has selected financially sound financial institutions 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 nonprofit 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 during 2017.

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, 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 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>2017</u>	<u>2016</u>
Mutual Funds and Exchange-Traded Funds (valued using Level 1 inputs)	\$ 3,751,578	\$ 3,435,095
Bernstein Multi-Manager Alternative Fund (valued at NAV)	863,380	800,438
Bernstein Dynamic Asset Allocation Overlays (valued at NAV)		
Overlay A	778,818	1,100,907
Overlay B	815,774	299,302
	<u>\$ 6,209,550</u>	<u>\$ 5,635,742</u>

Investments held for the endowment are summarized as follows:

	<u>2017</u>	<u>2016</u>
Mutual Funds and Exchange-Traded Funds (valued using Level 1 inputs)	\$ 2,550,720	\$ 2,312,426
Bernstein Multi-Manager Alternative Fund (valued at NAV)	582,165	539,723
Bernstein Dynamic Asset Allocation Overlays (valued at NAV)		
Overlay A	850,841	741,084
Overlay B	211,436	201,820
	<u>\$ 4,195,162</u>	<u>\$ 3,795,053</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 \$75,263 and \$73,673 at June 30, 2017 and 2016, 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 for the year ended June 30, 2016, consisted of two grants received in 2016 that relate to projects expected to be performed in 2017. In 2017, KUOW recognized the associated revenue when the work related to the grant took place and the funds were 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.

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 \$3,679,165 and \$2,903,077 for the years ended June 30, 2017 and 2016, 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.

Recently Issued Accounting Pronouncements

During the year ended June 30, 2017, KUOW adopted the provisions of Accounting Standards Update ("ASU") No. 2015-07, "Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)," issued by the Financial Accounting Standards Board ("FASB"). ASU 2015-07 was issued to address diversity in practice related to how certain investments measured at net asset value are categorized in the fair value hierarchy. The following are key provisions of this ASU applicable to KUOW:

- ASU 2015-07 provides that investments which are measured at fair value using net asset value per share as a practical expedient are no longer required to be categorized within the fair value hierarchy. KUOW's investments sponsored by Bernstein are measured at net asset value.

ASU 2015-07 has been adopted by KUOW during the year ended June 30, 2017. The provisions of the ASU have been applied retrospectively to all periods presented in these financial statements. The adoption of this ASU did not have a material effect on the financial statements.

Subsequent Events

KUOW has evaluated subsequent events through the date these financial statements were available to be issued, which was October 26, 2017.

Note 2. Property, Plant, and Equipment

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

	<u>2017</u>	<u>2016</u>
Leasehold improvements	\$ 5,146,070	\$ 5,146,070
Equipment	4,349,088	4,299,750
	9,495,158	9,445,820
Less: accumulated depreciation and amortization	<u>(8,434,258)</u>	<u>(7,926,898)</u>
	1,060,900	1,518,922
Construction in Progress	774,235	
Land	5,600	5,600
	<u>\$ 1,840,735</u>	<u>\$ 1,524,522</u>

Construction in progress is made up of costs for work related to development of a new digital platform and mobile application. In 2017, the Organization began development of the platform and capitalized costs of \$774,235.

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) are as follows for the years ending June 30:

2018	\$ 906,798
2019	906,798
2020	906,798
2021	906,798
2022	906,798
Thereafter	<u>5,440,785</u>
	<u>\$ 9,974,775</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>2017</u>	<u>2016</u>
Assets, beginning of year	\$ 3,795,053	\$ 3,883,315
Gain or loss on value of investments	<u>400,109</u>	<u>(88,262)</u>
Endowment net assets, end of year	<u>\$ 4,195,162</u>	<u>\$ 3,795,053</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.