

KUOW / PUGET SOUND PUBLIC RADIO

FINANCIAL REPORT

JUNE 30, 2008

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CERTIFIED PUBLIC ACCOUNTANTS

601 UNION STREET, SUITE 2300

SEATTLE, WASHINGTON 98101

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of financial position of KUOW / Puget Sound Public Radio as of June 30, 2008 and 2007, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of KUOW's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

/S/ PETERSON SULLIVAN PLLC

August 18, 2008

KUOW / PUGET SOUND PUBLIC RADIO

STATEMENTS OF FINANCIAL POSITION

June 30, 2008 and 2007

ASSETS	<u>2008</u>	<u>2007</u>
Current Assets		
Cash	\$ 1,781,940	\$ 1,062,392
Investments	3,660,740	4,011,287
Accounts receivable, net of allowance for doubtful accounts of \$593 in 2008 and \$3,560 in 2007	792,500	576,720
Contributions receivable	94,697	112,000
Prepaid expenses	<u>60,367</u>	<u>53,685</u>
Total current assets	6,390,244	5,816,084
Interest in Endowment Held by the University	75,266	77,233
Property, Plant and Equipment, net	3,380,821	3,577,776
Acquired Broadcast License	499,400	499,400
Investment in PRC Tacoma – I LLC	<u>1,487,500</u>	<u>1,212,500</u>
Total assets	<u><u>\$ 11,833,231</u></u>	<u><u>\$ 11,182,993</u></u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 102,476	\$ 165,073
Salaries and benefits payable	331,928	268,011
Capital lease obligations, current portion	<u>106,118</u>	<u>115,660</u>
Total current liabilities	540,522	548,744
Capital Lease Obligations, less current portion	<u>157,628</u>	<u>263,746</u>
Total liabilities	698,150	812,490
Net Assets		
Unrestricted	10,993,017	10,216,549
Temporarily restricted	66,798	76,721
Permanently restricted	<u>75,266</u>	<u>77,233</u>
Total net assets	<u>11,135,081</u>	<u>10,370,503</u>
Total liabilities and net assets	<u><u>\$ 11,833,231</u></u>	<u><u>\$ 11,182,993</u></u>

See Notes to Financial Statements

KUOW / PUGET SOUND PUBLIC RADIO
STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2008 and 2007

	2008			2007				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Support								
Listener support	\$ 4,563,210	\$ -	\$ -	\$ 4,563,210	\$ 4,421,545	\$ -	\$ -	\$ 4,421,545
Underwriting	4,163,637			4,163,637	3,736,715			3,736,715
Community service grant from Corporation for Public Broadcasting	565,609			565,609	554,926			554,926
Other grants and contributions	301,636			301,636	146,900	50,000		196,900
Ancillary revenue	24,822			24,822	37,259			37,259
Interest and dividend income	364,487			364,487	128,761			128,761
Donated services and supplies	140,850			140,850	171,797			171,797
Direct support from the University	133,509			133,509	126,248			126,248
Indirect support from the University	67,480			67,480	46,767			46,767
	<u>10,325,240</u>			<u>10,325,240</u>	<u>9,370,918</u>	<u>50,000</u>		<u>9,420,918</u>
Net assets released from time restrictions	9,923	(9,923)			8,066	(8,066)		
Total revenue and support	10,335,163	(9,923)		10,325,240	9,378,984	41,934		9,420,918
Expenses								
Program services								
Programming and production	4,426,328			4,426,328	3,858,826			3,858,826
Broadcasting	1,360,220			1,360,220	1,192,678			1,192,678
Public information	423,818			423,818	407,554			407,554
	<u>6,210,366</u>			<u>6,210,366</u>	<u>5,459,058</u>			<u>5,459,058</u>
Supporting services								
Listener support	933,172			933,172	844,826			844,826
Underwriting	1,051,378			1,051,378	919,316			919,316
General and administrative	706,284			706,284	659,453			659,453
	<u>2,690,834</u>			<u>2,690,834</u>	<u>2,423,595</u>			<u>2,423,595</u>
Total expenses	8,901,200			8,901,200	7,882,653			7,882,653
Change in net assets before investment gains (losses)	1,433,963	(9,923)		1,424,040	1,496,331	41,934		1,538,265
Investment gains (losses)	(657,495)		(1,967)	(659,462)	446,089		8,336	454,425
Change in net assets	776,468	(9,923)	(1,967)	764,578	1,942,420	41,934	8,336	1,992,690
Net Assets, beginning of year	10,216,549	76,721	77,233	10,370,503	8,274,129	34,787	68,897	8,377,813
Net Assets, end of year	<u>\$ 10,993,017</u>	<u>\$ 66,798</u>	<u>\$ 75,266</u>	<u>\$ 11,135,081</u>	<u>\$ 10,216,549</u>	<u>\$ 76,721</u>	<u>\$ 77,233</u>	<u>\$ 10,370,503</u>

See Notes to Financial Statements

KUOW / PUGET SOUND PUBLIC RADIO

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2008

	Program Services			Supporting Services					
	Programming and Production	Broadcasting	Public Information	Total Program Services	Listener Support	Underwriting	General and Administrative	Total Supporting Services	Total
Salaries and benefits, including pension expense of \$230,570	\$ 2,275,531	\$ 621,305	\$ 277,221	\$ 3,174,057	\$ 374,360	\$ 590,885	\$ 423,078	\$ 1,388,323	\$ 4,562,380
Professional services	92,813	19,440	26,116	138,369			75,373	75,373	213,742
Contract services									
Telecommunications	16,135	42,556	1,113	59,804	5,341	2,264	4,462	12,067	71,871
Printing			5,635	5,635	86,660	52		86,712	92,347
Postage	57	2,051	402	2,510	97,163	485	2,527	100,175	102,685
Program acquisition	1,587,459	6,900		1,594,359					1,594,359
Rent	144,414	264,999	5,484	414,897	33,529	26,669	77,573	137,771	552,668
Agency fees					116,679	382,991	6,150	505,820	505,820
Other contract services	37,958	53,544	23,070	114,572	97,616	4,109	55,646	157,371	271,943
Travel	29,376	4,427	16,767	50,570		1,365	7,354	8,719	59,289
Supplies	17,366	144,783	17,146	179,295	87,366	1,664	3,671	92,701	271,996
Interest	4,815	8,892	185	13,892	1,111	741	2,778	4,630	18,522
Bad debt expense						27,592		27,592	27,592
Depreciation and amortization	91,736	181,673	3,476	276,885	19,514	12,561	38,696	70,771	347,656
Total expenses before donated services and similar	4,297,660	1,350,570	376,615	6,024,845	919,339	1,051,378	697,308	2,668,025	8,692,870
Donated services and supplies, and indirect support from the University	128,668	9,650	47,203	185,521	13,833		8,976	22,809	208,330
	<u>\$ 4,426,328</u>	<u>\$ 1,360,220</u>	<u>\$ 423,818</u>	<u>\$ 6,210,366</u>	<u>\$ 933,172</u>	<u>\$ 1,051,378</u>	<u>\$ 706,284</u>	<u>\$ 2,690,834</u>	<u>\$ 8,901,200</u>

See Notes to Financial Statements

KUOW / PUGET SOUND PUBLIC RADIO

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2007

	Program Services			Supporting Services					Total
	Programming and Production	Broadcasting	Public Information	Total Program Services	Listener Support	Underwriting	General and Administrative	Total Supporting Services	
Salaries and benefits, including pension expense of \$188,894	\$ 1,881,350	\$ 504,058	\$ 274,885	\$ 2,660,293	\$ 360,295	\$ 513,824	\$ 374,421	\$ 1,248,540	\$ 3,908,833
Professional services	60,672	6,350	16,456	83,478	3,075	10,288	81,808	95,171	178,649
Contract services									
Telecommunications	14,615	40,111	944	55,670	4,955	2,006	4,116	11,077	66,747
Printing			5,064	5,064	55,874		1,401	57,275	62,339
Postage	66	941	50	1,057	89,671	353	2,918	92,942	93,999
Program acquisition	1,480,959	6,900		1,487,859					1,487,859
Rent	117,377	215,807	5,454	338,638	26,647	17,700	67,029	111,376	450,014
Agency fees					98,034	338,432	6,244	442,710	442,710
Other contract services	36,311	82,209	30,915	149,435	97,174	4,422	44,301	145,897	295,332
Travel	20,223	2,407	18,102	40,732	34	1,532	6,794	8,360	49,092
Supplies	9,101	140,527	18,397	168,025	78,125	1,356	3,798	83,279	251,304
Interest	7,330	13,540	290	21,160	1,690	1,130	4,233	7,053	28,213
Bad debt expense						16,200		16,200	16,200
Depreciation and amortization	87,766	173,374	3,328	264,468	18,729	12,073	37,528	68,330	332,798
Total expenses before donated services and similar	3,715,770	1,186,224	373,885	5,275,879	834,303	919,316	634,591	2,388,210	7,664,089
Donated services and supplies, and indirect support from the University	143,056	6,454	33,669	183,179	10,523		24,862	35,385	218,564
	<u>\$ 3,858,826</u>	<u>\$ 1,192,678</u>	<u>\$ 407,554</u>	<u>\$ 5,459,058</u>	<u>\$ 844,826</u>	<u>\$ 919,316</u>	<u>\$ 659,453</u>	<u>\$ 2,423,595</u>	<u>\$ 7,882,653</u>

See Notes to Financial Statements

KUOW / PUGET SOUND PUBLIC RADIO

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 764,578	\$ 1,992,690
Adjustments to reconcile the changes in net assets to cash flows from operating activities		
Depreciation and amortization	347,656	332,798
Unrealized losses (gains) in endowment held by the University	1,967	(8,336)
Losses (gains) on investments	657,495	(446,089)
Change in operating assets and liabilities		
Accounts receivable	(215,780)	(175,538)
Contributions receivable	17,303	(11,894)
Prepaid expenses	(6,682)	(14,816)
Accounts payable and accrued expenses	(62,597)	107,436
Salaries and benefits payable	63,917	48,453
	<u>1,567,857</u>	<u>1,824,704</u>
Cash flows provided by operating activities		
Cash Flows from Investing Activities		
Acquisitions of property and equipment	(150,701)	(193,478)
Purchase of investments	(3,153,971)	(2,644,718)
Sales of investments	2,847,023	2,443,575
Investment in PRC Tacoma – I LLC	(275,000)	(212,500)
	<u>(732,649)</u>	<u>(607,121)</u>
Cash flows used in investing activities		
Cash Flows used in Financing Activity for principal payments on capital lease obligation	<u>(115,660)</u>	<u>(204,190)</u>
	<u>(115,660)</u>	<u>(204,190)</u>
Increase in cash	719,548	1,013,393
Cash, beginning of year	<u>1,062,392</u>	<u>48,999</u>
Cash, end of year	<u><u>\$ 1,781,940</u></u>	<u><u>\$ 1,062,392</u></u>

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

Note 1. Organization and Significant Accounting Policies

Organization

KUOW / Puget Sound Public Radio ("PSPR") 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. PSPR operates three public radio stations: KUOW-FM Seattle, on behalf of licensee University of Washington; KXOT Tacoma, on behalf of licensee PRC Tacoma – I LLC; and KUOW Tumwater, as licensee.

Fiscal Year

PSPR 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

PSPR 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. PSPR's policy is to present temporarily restricted contributions for which the restrictions are met in the period received as unrestricted revenue.

Temporarily Restricted Net Assets

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

	2008	2007
Program Venture Fund	\$ 21,245	\$ 26,221
Wayne C. Roth Fund for staff training	45,053	50,000
Other	500	500
	<u>\$ 66,798</u>	<u>\$ 76,721</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 income from the endowment is used to support the operations of PSPR.

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>2008</u>	<u>2007</u>
Contributed radio acknowledgements	\$ 94,117	\$ 120,047
Supplies	<u>46,733</u>	<u>51,750</u>
	<u>\$ 140,850</u>	<u>\$ 171,797</u>

Direct support from the University primarily represents the portion of the salary and benefits for PSPR's General Manager that was paid for by the University. Direct support also includes other payroll-related support.

PSPR 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 fair market value of indirect support is recorded based on the Corporation for Public Broadcasting guidelines and totaled \$67,480 and \$46,769 for the years ended June 30, 2008 and 2007, respectively.

In addition, many individuals volunteer their time and perform a variety of tasks for PSPR, 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 \$59,768 and \$75,863 for the years ended June 30, 2008 and 2007, respectively. These services are not recognized in these financial statements.

Cash

Cash consists of cash in banks and money market funds. Certain money market funds (not included with cash) are included with investments. At times during the year, PSPR has cash in banks in excess of the FDIC insurance limits. To mitigate this risk, management believes it has selected financially sound banks to hold its funds.

Interest paid on a cash basis was \$18,522 and \$28,213 during the years ended June 30, 2008 and 2007, respectively.

Management expects to incur approximately \$758,000 of costs in the year ending June 30, 2009, related to facilities expansion.

Investments

Investments are stated at market value. Investments consist of the following at June 30:

	<u>2008</u>	<u>2007</u>
Bond mutual fund	\$ 1,097,361	\$ 1,106,279
Common stock	1,481,710	1,674,686
Real estate investment trust mutual fund	323,586	394,631
International equity mutual fund	574,845	657,293
Emerging market mutual fund	158,374	155,210
Money market funds	24,864	23,188
	<u>\$ 3,660,740</u>	<u>\$ 4,011,287</u>

Property, Plant and Equipment

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

Accounts Receivable/Revenue

Almost all subscribers are located in the Pacific Northwest. Also, almost all underwriting fees come from companies located in the Pacific Northwest. Underwriting fees are recognized when the related programming is aired.

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.

Income Taxes

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

Fundraising

Total fundraising costs were \$1,984,550 and \$1,764,142 for the years ended June 30, 2008 and 2007, respectively.

Note 2. Property, Plant and Equipment

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

	<u>2008</u>	<u>2007</u>
Leasehold improvements	\$ 4,199,627	\$ 4,141,699
Equipment	3,418,638	3,325,862
Land	<u>5,600</u>	<u>5,600</u>
	7,623,865	7,473,161
Less accumulated depreciation and amortization	<u>(4,243,044)</u>	<u>(3,895,385)</u>
	<u><u>\$ 3,380,821</u></u>	<u><u>\$ 3,577,776</u></u>

During the year ended June 30, 2004, PSPR purchased equipment with a cost of \$206,928 under a Public Telecommunications Facilities Grant. The granting agency retains a security interest in the equipment through December 2014.

Note 3. Leases

Operating Leases

PSPR leases its 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.

Future minimum payments under this lease for years ending June 30 are:

2009	\$	535,000
2010		535,000
2011		535,000
2012		535,000
2013		535,000
Thereafter		8,025,000
		<hr/>
	\$	10,700,000
		<hr/> <hr/>

Capital Leases

The University has entered into capital leases for equipment and leasehold improvements with the Washington State Treasurer on behalf of PSPR. The related lease obligations bear interest at rates ranging from 5.11% to 6.15% and have varying payments, which run through June 2012. As of June 30, 2008 and 2007, the cost of the leased equipment and leasehold improvements was \$2,341,953. The related accumulated amortization was approximately \$1,052,000 at June 30, 2008, and \$935,000 at June 30, 2007. Amortization expense associated with this leased property is included with other depreciation and amortization expense. Interest expense associated with capital lease obligations amounted to \$18,522 and \$28,213 for the years ended June 30, 2008 and 2007, respectively.

Following is a schedule by year of future minimum lease payments under the capital leases (broken out between principal and interest) of the future lease payments at June 30:

	Total Lease Payments	Amount Representing Interest	Amount Representing Principal
	<hr/>	<hr/>	<hr/>
2009	\$ 118,739	\$ 12,621	\$ 106,118
2010	94,239	6,731	87,508
2011	37,329	3,154	34,175
2012	37,329	1,384	35,945
	<hr/>	<hr/>	<hr/>
	\$ 287,636	\$ 23,890	\$ 263,746
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Note 4. Broadcast License

The broadcast license represents the cost of PSPR's radio station (KUOW) in Tumwater, Washington. PSPR broadcasts KUOW – FM programming on the AM band under this license.

The management of PSPR evaluates the intangible asset (broadcast license) annually for impairment. Management determined that there was no impairment during the years ended June 30, 2008 and 2007. The broadcast license has a perpetual life (subject to regulatory approval), so the cost is not amortized.

Note 5. Investment in PRC Tacoma – I LLC

During the year ended June 30, 2006, PSPR purchased a ten percent interest in PRC Tacoma – I LLC ("PRT"). PRT holds the broadcast license for radio station KXOT in Tacoma, Washington. The total purchase price was \$1,000,000 for the ten percent interest. PSPR accounts for this investment at cost. As PRT is a limited liability company, PSPR's liability associated with PRT is generally limited to the amount of its investment.

As part of the purchase agreement, PSPR agreed to purchase an additional ten percent interest in PRT through a series of purchases. The purchases were to occur in one-half percent increments, at specified prices on a quarterly basis (so PSPR would acquire an additional two percent interest per year for five years). During the years ended June 30, 2008, and 2007, PSPR acquired an additional two percent interest in PRT each year for \$250,000 and \$150,000, respectively. As a result, PSPR held a 14% interest in PRT at June 30, 2008. Future purchase price commitments for the years ending June 30 are as follows:

2009	\$ 350,000*
2010	450,000
2011	<u>550,000</u>
Total	<u>\$ 1,350,000</u>

* \$87,500 is prepaid at June 30, 2008

PSPR has the option, exercisable through July 2011, to purchase all or a portion of the remaining interests in PRT at specified prices. On July 31, 2011, the option price to acquire the remaining 80% of the interests in PRT will be approximately \$10,033,000.

PSPR also obtained the right to operate KXOT. PSPR is required to pay all operating expenses of the station, but retains all revenues generated through grants, underwriting, contributions, and other sources related to PRT.

The management of PSPR evaluates its investment in PRT annually for impairment (the broadcast license PRT holds has a perpetual life, subject to regulatory approval). Management determined that there was no impairment during the years ended June 30, 2008 and 2007.