

KUOW / PUGET SOUND PUBLIC RADIO

FINANCIAL REPORT

JUNE 30, 2011

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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, 2011 and 2010, 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, 2011 and 2010, 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.

Peterson Sullivan LLP

October 21, 2011

KUOW / PUGET SOUND PUBLIC RADIO

STATEMENTS OF FINANCIAL POSITION

June 30, 2011 and 2010

ASSETS	2011	2010
	<hr/>	<hr/>
Current Assets		
Cash	\$ 3,241,349	\$ 1,413,335
Investments	4,412,673	3,587,371
Accounts receivable	557,821	550,972
Contributions receivable	319,290	188,779
Prepaid expenses	38,648	79,286
	<hr/>	<hr/>
Total current assets	8,569,781	5,819,743
Interest in Endowment Held by the University	66,495	62,455
Investments Held for Endowment	231,920	190,357
Property, Plant, and Equipment, net	3,501,757	3,883,906
Acquired Broadcast License	438,342	438,342
Investment in PRC Tacoma – I LLC	2,500,000	2,212,500
	<hr/>	<hr/>
Total assets	<u>\$ 15,308,295</u>	<u>\$ 12,607,303</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 98,560	\$ 47,639
Salaries and benefits payable	367,792	370,955
Capital lease obligations, current portion	35,945	34,175
	<hr/>	<hr/>
Total current liabilities	502,297	452,769
Capital Lease Obligations, less current portion		35,945
	<hr/>	<hr/>
Total liabilities	502,297	488,714
Net Assets		
Unrestricted	14,642,059	11,961,894
Temporarily restricted	97,444	94,240
Permanently restricted	66,495	62,455
	<hr/>	<hr/>
Total net assets	14,805,998	12,118,589
	<hr/>	<hr/>
Total liabilities and net assets	<u>\$ 15,308,295</u>	<u>\$ 12,607,303</u>

See Notes to Financial Statements

KUOW / PUGET SOUND PUBLIC RADIO

STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2011 and 2010

	2011				2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Support								
Listener support	\$ 6,269,921	\$ -	\$ -	\$ 6,269,921	\$ 5,532,743	\$ -	\$ -	\$ 5,532,743
Underwriting	4,258,965			4,258,965	3,495,403			3,495,403
Community service grant from Corporation for Public Broadcasting	680,729			680,729	741,933			741,933
Other grants and contributions	301,796	47,500		349,296	63,100	40,000		103,100
Ancillary revenue	18,810			18,810	22,190			22,190
Interest and dividend income	110,202			110,202	101,453			101,453
Donated services and supplies	69,336			69,336	38,707			38,707
Direct support from the University	115,908			115,908	138,060			138,060
Indirect support from the University	60,665			60,665	54,075			54,075
	<u>11,886,332</u>	<u>47,500</u>		<u>11,933,832</u>	<u>10,187,664</u>	<u>40,000</u>		<u>10,227,664</u>
Net assets released from restrictions	44,296	(44,296)			500	(500)		
Total revenue and support	11,930,628	3,204		11,933,832	10,188,164	39,500		10,227,664
Expenses								
Program services								
Programming and production	4,980,871			4,980,871	4,740,813			4,740,813
Broadcasting	1,466,598			1,466,598	1,339,017			1,339,017
Public information	547,447			547,447	484,317			484,317
	<u>6,994,916</u>			<u>6,994,916</u>	<u>6,564,147</u>			<u>6,564,147</u>
Supporting services								
Listener support	1,161,195			1,161,195	1,090,568			1,090,568
Underwriting	1,148,004			1,148,004	981,710			981,710
General and administrative	578,103			578,103	729,230			729,230
	<u>2,887,302</u>			<u>2,887,302</u>	<u>2,801,508</u>			<u>2,801,508</u>
Total expenses	9,882,218			9,882,218	9,365,655			9,365,655
Change in net assets before investment gain and impairment charge	2,048,410	3,204		2,051,614	822,509	39,500		862,009
Realized and unrealized gain on investment and impairment charge								
Investment gain	756,755		4,040	760,795	241,851		10,796	252,647
Impairment loss on investment	(125,000)			(125,000)	(125,000)			(125,000)
Net investment and impairment gain	631,755		4,040	635,795	116,851		10,796	127,647
Change in net assets	2,680,165	3,204	4,040	2,687,409	939,360	39,500	10,796	989,656
Net Assets, beginning of year	11,961,894	94,240	62,455	12,118,589	11,022,534	54,740	51,659	11,128,933
Net Assets, end of year	<u>\$ 14,642,059</u>	<u>\$ 97,444</u>	<u>\$ 66,495</u>	<u>\$ 14,805,998</u>	<u>\$ 11,961,894</u>	<u>\$ 94,240</u>	<u>\$ 62,455</u>	<u>\$ 12,118,589</u>

See Notes to Financial Statements

KUOW / PUGET SOUND PUBLIC RADIO

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2011

	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 \$265,604	\$ 2,660,912	\$ 590,804	\$ 364,313	\$ 3,616,029	\$ 451,798	\$ 581,398	\$ 372,092	\$ 1,405,288	\$ 5,021,317
Professional services	102,372	11,039	29,298	142,709		9,909	64,844	74,753	217,462
Contract services									
Telecommunications	28,212	36,177	2,428	66,817	8,236	4,852	9,870	22,958	89,775
Printing			16,379	16,379	113,265		1,346	114,611	130,990
Postage	2,019	706	2,169	4,894	174,869	293	2,390	177,552	182,446
Program acquisition	1,789,654	7,494		1,797,148					1,797,148
Rent	162,022	368,196	17,526	547,744	28,279	42,733	26,037	97,049	644,793
Agency and processing fees					275,118	444,996	7,467	727,581	727,581
Other contract services	37,848	81,888	15,813	135,549	17,143	8,145	43,062	68,350	203,899
Travel	27,157	322	13,477	40,956		825	5,872	6,697	47,653
Supplies	8,583	95,271	32,279	136,133	57,862	1,120	2,561	61,543	197,676
Interest	791	1,799	82	2,672	142	214	126	482	3,154
Bad debt expense						29,883		29,883	29,883
Depreciation and amortization	118,575	265,539	8,746	392,860	21,622	23,636	20,322	65,580	458,440
Total expenses before donated services and similar	4,938,145	1,459,235	502,510	6,899,890	1,148,334	1,148,004	555,989	2,852,327	9,752,217
Donated services and supplies and indirect support from the University	42,726	7,363	44,937	95,026	12,861		22,114	34,975	130,001
	<u>\$ 4,980,871</u>	<u>\$ 1,466,598</u>	<u>\$ 547,447</u>	<u>\$ 6,994,916</u>	<u>\$ 1,161,195</u>	<u>\$ 1,148,004</u>	<u>\$ 578,103</u>	<u>\$ 2,887,302</u>	<u>\$ 9,882,218</u>

See Notes to Financial Statements

KUOW / PUGET SOUND PUBLIC RADIO

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2010

	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 \$263,604	\$ 2,614,148	\$ 596,006	\$ 370,514	\$ 3,580,668	\$ 474,566	\$ 583,075	\$ 441,490	\$ 1,499,131	\$ 5,079,799
Professional services	64,920	9,802	11,688	86,410		10,800	65,778	76,578	162,988
Contract services									
Telecommunications	18,266	29,275	1,566	49,107	6,776	3,158	6,657	16,591	65,698
Printing			13,015	13,015	76,124		2,492	78,616	91,631
Postage	1,856	1,064	951	3,871	133,172	162	2,577	135,911	139,782
Program acquisition	1,660,216	7,100		1,667,316					1,667,316
Rent	165,979	305,958	6,365	478,302	37,174	24,782	93,798	155,754	634,056
Agency and processing fees					250,996	315,899	6,627	573,522	573,522
Other contract services	35,954	61,476	19,357	116,787	19,671	9,231	41,876	70,778	187,565
Travel	14,741		12,419	27,160		1,023	4,312	5,335	32,495
Supplies	7,956	88,534	20,544	117,034	55,704	1,343	3,341	60,388	177,422
Interest	1,750	3,232	67	5,049	404	269	1,010	1,683	6,732
Bad debt expense						16,217		16,217	16,217
Depreciation and amortization	115,748	230,007	4,384	350,139	24,517	15,751	47,923	88,191	438,330
Total expenses before donated services and similar	4,701,534	1,332,454	460,870	6,494,858	1,079,104	981,710	717,881	2,778,695	9,273,553
Donated services and supplies and indirect support from the University	39,279	6,563	23,447	69,289	11,464		11,349	22,813	92,102
	\$ 4,740,813	\$ 1,339,017	\$ 484,317	\$ 6,564,147	\$ 1,090,568	\$ 981,710	\$ 729,230	\$ 2,801,508	\$ 9,365,655

See Notes to Financial Statements

KUOW / PUGET SOUND PUBLIC RADIO

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 2,687,409	\$ 989,656
Adjustments to reconcile the changes in net assets to cash flows provided by operating activities		
Depreciation and amortization	458,440	438,330
Unrealized gains in endowment held by the University	(4,040)	(10,796)
Gains on investments	(756,755)	(241,851)
Impairment loss on investment	125,000	125,000
Change in operating assets and liabilities		
Accounts receivable	(6,849)	77,131
Contributions receivable	(130,511)	(61,154)
Prepaid expenses	40,638	(18,097)
Accounts payable and accrued expenses	50,921	(117,323)
Salaries and benefits payable	(3,163)	1,323
	<u>2,461,090</u>	<u>1,182,219</u>
Cash flows from operating activities	2,461,090	1,182,219
Cash Flows from Investing Activities		
Acquisitions of property and equipment	(76,291)	(133,116)
Purchase of investments	(2,696,328)	(5,421,748)
Sales of investments	2,586,218	4,717,668
Investment in PRC Tacoma – I LLC	(412,500)	(587,500)
	<u>(598,901)</u>	<u>(1,424,696)</u>
Cash flows from investing activities	(598,901)	(1,424,696)
Cash Flows from Financing Activity		
Principal payments on capital lease obligation	(34,175)	(87,508)
	<u>(34,175)</u>	<u>(87,508)</u>
Change in cash	1,828,014	(329,985)
Cash, beginning of year	<u>1,413,335</u>	<u>1,743,320</u>
Cash, end of year	<u>\$ 3,241,349</u>	<u>\$ 1,413,335</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 four public radio stations: KUOW-FM Seattle, on behalf of licensee University of Washington ("the University"); KXOT Tacoma, on behalf of licensee PRC Tacoma – I LLC (see note 7); KUOW Tumwater, and, subsequent to June 30, 2011, KQOW Bellingham. The licenses for KUOW Tumwater and KQOW Bellingham were assigned to the University in August 2011.

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. 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 which 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 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>2011</u>	<u>2010</u>
Program Venture Fund	\$ 9,934	\$ 13,795
Wayne C. Roth Fund for staff training	40,010	40,445
Otto Haas Web Development Fund	40,000	40,000
Other	7,500	
	<u>\$ 97,444</u>	<u>\$ 94,240</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 2 in the fair value hierarchy. The income is to be 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>2011</u>	<u>2010</u>
Contributed radio acknowledgements	\$ 10,998	\$ 10,998
Supplies	58,338	27,029
Donated camera		680
	<u>\$ 69,336</u>	<u>\$ 38,707</u>

Direct support from the University (amounting to \$115,908 in 2011 and \$138,060 in 2010) primarily represents the portion of the salary and benefits for PSPR's President 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 value of indirect support is recorded based on the Corporation for Public Broadcasting guidelines and totaled \$60,665 and \$54,075 for the years ended June 30, 2011 and 2010, 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 approximately \$76,000 and \$87,000 for the years ended June 30, 2011 and 2010, respectively. These services are not recognized in these financial statements.

Cash

Cash consists of cash in bank and money market funds. 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 \$3,151 and \$6,732 during the years ended June 30, 2011 and 2010, respectively.

Investments

Investments are stated at fair value. Investments include common stocks, and debt and equity mutual funds. 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. 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.

Both Overlay A and B are valued based on the net asset value of the underlying investments and are considered Level 2 in the fair value hierarchy. Overlay A and B have no redemption restrictions and have no future funding requirements.

Investments are summarized as follows:

	<u>2011</u>	<u>2010</u>
Common stocks	\$ 851,293	\$ 966,550
Domestic growth equity mutual fund	444,262	255,361
International equity mutual fund	446,143	509,805
Emerging market mutual fund	88,552	141,257
Intermediate duration bond mutual fund	927,236	1,141,826
Real estate investment trust mutual fund	322,785	377,182
Small-cap growth index fund		195,390
Bernstein Dynamic Asset Allocation Overlays		
Overlay A	1,066,199	
Overlay B	266,203	
	<u>\$ 4,412,673</u>	<u>\$ 3,587,371</u>

Investments held for the endowment are summarized as follows:

	<u>2011</u>	<u>2010</u>
Intermediate duration bond mutual fund	\$ 48,446	\$ 62,711
Domestic growth equity mutual fund	113,425	127,646
Bernstein Dynamic Asset Allocation Overlays		
Overlay A	56,073	
Overlay B	13,976	
	<u>\$ 231,920</u>	<u>\$ 190,357</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. No allowance was considered necessary at June 30, 2011 and 2010.

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.

Revenue

Listener support (individual subscriptions) represents amounts pledged by individuals. Subscription revenue is recognized as revenue when it is pledged. 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.

Fundraising

Total fundraising costs were \$2,281,351 and \$2,072,278 for the years ended June 30, 2011 and 2010, respectively.

Income Taxes

PSPR is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. PSPR's federal tax returns are open to examination for the years ended June 30, 2008 to June 30, 2011.

Subsequent Events

PSPR has evaluated subsequent events through the date these financial statements were available to be issued, which was the same date as the independent auditors' report.

Note 2. Property, Plant, and Equipment

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

	2011	2010
Leasehold improvements	\$ 5,138,137	\$ 5,138,137
Equipment	3,910,969	3,834,678
Land	5,600	5,600
	9,054,706	8,978,415
Less accumulated depreciation and amortization	(5,552,949)	(5,094,509)
	<u>\$ 3,501,757</u>	<u>\$ 3,883,906</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

The University leases PSPR'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. PSPR reimburses the University for the payments due under the lease.

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

2012	\$ 628,000
2013	628,000
2014	628,000
2015	628,000
2016	628,000
Thereafter	7,540,800
	<u>\$ 10,680,800</u>

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, 2011 and 2010, the cost of the leased equipment and leasehold improvements was \$2,341,953. The related accumulated amortization was approximately \$1,508,000 at June 30, 2011, and \$1,383,000 at June 30, 2010. Amortization expense associated with this leased property is included with other depreciation and amortization expense. Interest expense associated with capital lease obligations amounted to \$3,154 and \$6,732 for the years ended June 30, 2011 and 2010, respectively.

Lease payments end during the year ending June 30, 2012. For 2012, payments required are \$37,329, of which \$35,945 is principal and \$1,384 is interest.

Note 4. Board-Designated Funds Held as Endowment

PSPR's other endowment consists of one Board-designated fund established to provide long-term stability and support for the programs, operations, and activities of PSPR. 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 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Assets, beginning of year	\$ 190,357	\$ -
Contribution to fund		200,000
Gain or loss on value of investments		
	<u>41,563</u>	<u>(9,643)</u>
Endowment net assets, end of year	<u>\$ 231,920</u>	<u>\$ 190,357</u>

Interpretation of Relevant Law

Although PSPR's endowment is Board-designated, 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 Trustees/Directors of PSPR 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, PSPR classifies as permanently restricted net assets (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. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by PSPR in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, PSPR 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 PSPR 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 PSPR
- Other resources of PSPR

Return Objectives and Risk Parameters

PSPR 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, PSPR targets a diversified asset allocation which is reviewed at least annually.

Spending Policy and How the Investment Objectives Relate to Spending Policy

PSPR plans to hold these funds until the value of the fund reaches at least \$1,000,000. Each year thereafter, the Board of Directors will establish a payout percentage for the fund.

Note 5. Fair Value Measurements

As previously mentioned, PSPR'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:

	2011			
	Level 1	Level 2	Level 3	Total
Current investments	\$ 3,080,271	\$ 1,332,402	\$ -	\$ 4,412,673
Investments held for endowment	161,871	70,049		231,920
Interest in endowment held by the University		66,495		66,495
Total	<u>\$ 3,242,142</u>	<u>\$ 1,468,946</u>	<u>\$ -</u>	<u>\$ 4,711,088</u>
	2010			
	Level 1	Level 2	Level 3	Total
Current investments	\$ 3,587,371	\$ -	\$ -	\$ 3,587,371
Investments held for endowment	190,357			190,357
Interest in endowment held by the University		62,455		62,455
Total	<u>\$ 3,777,728</u>	<u>\$ 62,455</u>	<u>\$ -</u>	<u>\$ 3,840,183</u>

Note 6. Acquired Broadcast License

The acquired 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 license was assigned to the University of Washington in August 2011.

The broadcast license (an intangible asset) is accounted for at cost and has a perpetual life (subject to regulatory approval), so the cost is not amortized. Management evaluates the intangible asset for impairment whenever conditions change which suggest an impairment could exist, but at least annually. Management determined that there were no potential impairments during the years ended June 30, 2011 and 2010.

Note 7. Investment in PRC Tacoma – I LLC

During the year ended June 30, 2006, PSPR paid \$1,000,000 to purchase a ten percent interest in PRC Tacoma – I LLC ("PRT") from Public Radio Capital ("PRC"). PRT holds the broadcast license for radio station KXOT in Tacoma, Washington.

As part of the purchase agreement, PSPR agreed to purchase an additional two percent interest in PRT each year for the next five years. During the years ended June 30, 2011 and 2010, PSPR acquired these additional two percent interests for \$550,000 and \$450,000, respectively. As of June 30, 2011, PSPR held a 20% interest in PRT. PSPR accounts for this investment at cost (subject to an annual impairment test). As PRT is a limited liability company, PSPR's liability associated with PRT is generally limited to the amount of its investment.

PSPR also has 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.

PRC is indebted to a bank in the principal amount of \$6,000,000. That debt is guaranteed by PRT and is now in default. The bank has engaged a broker to attempt to sell KXOT. It is likely that any eventual net sale proceeds would be less than the carrying value at June 30, 2011, of PSPR's interest in PRT. However, PSPR has an option under the purchase agreement to require PRC to repurchase PSPR's interest in PRT for \$2,500,000 (plus 5% interest computed from August 1, 2011). At October 21, 2011, PSPR is not able to determine either a reliable estimate of possible proceeds from any eventual sale of KXOT or PRC's financial ability to pay PSPR the \$2,500,000 (plus interest) should it exercise its option.

PSPR evaluates its investment in PRT annually for impairment using the latest investment amount and the contractual repurchase price under the purchase agreement. Aside from whether PSPR is able to receive the contractual repurchase price for this investment, there is an impairment loss of \$125,000 for both June 30, 2011 and 2010, which has been recognized in these financial statements. Due to the uncertainty described above, no other charge for a potential impairment has been recognized in these financial statements.