

**CASCADE PUBLIC MEDIA AND SUBSIDIARIES**

Consolidated Financial Statements

For the Year Ended June 30, 2017

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## **Independent Auditor's Report**

**To the Board of Directors  
Cascade Public Media and Subsidiaries  
Seattle, Washington**

We have audited the accompanying consolidated financial statements of Cascade Public Media and subsidiaries (collectively, the Organization), which comprise the consolidated statement of financial position as of June 30, 2017, and the related consolidated statements of activities and changes in net assets and cash flows for the year then ended and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal controls 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls 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 controls. 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.



T: 425-454-4919  
T: 800-504-8747  
F: 425-454-4620

10900 NE 4th St  
Suite 1400  
Bellevue WA  
98004

[clarknuber.com](http://clarknuber.com)

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

## **Report on Summarized Comparative Information**

We have previously audited the Organization's 2016 financial statements and expressed an unmodified opinion on those audited financial statements in our report dated November 17, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

## **Report on Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The consolidated schedule of functional expenses on page 21 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Clark Nuber PS*

Certified Public Accountants  
November 16, 2017

CASCADE PUBLIC MEDIA AND SUBSIDIARIES

Consolidated Statement of Financial Position  
 June 30, 2017  
 (With Comparative Totals for 2016)

	2017	2016
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 2,783,460	\$ 1,431,824
Investments held for short-term purposes	6,626,726	5,815,445
Accounts, grants and contributions receivable, net	1,918,564	2,995,409
Inventories and other current assets	237,108	245,283
<b>Total Current Assets</b>	<b>11,565,858</b>	<b>10,487,961</b>
Long-term grants receivable	33,515	27,570
Investments held for long-term purposes	12,323,729	8,691,561
Beneficial interest in trusts	806,338	841,147
Land, property and equipment, net	4,106,810	4,705,292
Other assets	85,957	84,823
<b>Total Assets</b>	<b>\$ 28,922,207</b>	<b>\$ 24,838,354</b>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities:</b>		
Accounts payable and accrued expenses	\$ 1,906,232	\$ 1,961,281
Deferred revenue	931,460	644,257
<b>Total Current Liabilities</b>	<b>2,837,692</b>	<b>2,605,538</b>
Gift annuities payable	468,891	472,417
Long-term portion of accrued expenses	165,470	151,182
Long-term portion of deferred revenue	1,833,106	1,916,438
<b>Total Liabilities</b>	<b>5,305,159</b>	<b>5,145,575</b>
<b>Net Assets:</b>		
Unrestricted	19,880,740	17,088,223
Temporarily restricted	1,746,963	746,044
Permanently restricted	1,989,345	1,858,512
<b>Total Net Assets</b>	<b>23,617,048</b>	<b>19,692,779</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 28,922,207</b>	<b>\$ 24,838,354</b>

See accompanying notes.

CASCADE PUBLIC MEDIA AND SUBSIDIARIES

Consolidated Statement of Activities and Changes in Net Assets  
For the Year Ended June 30, 2017  
(With Comparative Totals for 2016)

	2017			Total	2016 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
<b>Revenues:</b>					
Memberships	\$ 12,711,517	\$ -	\$ -	\$ 12,711,517	\$ 11,520,859
Royalties, fees and other services	2,845,729			2,845,729	2,618,733
Community service grants from the Corporation for Public Broadcasting	1,791,259			1,791,259	1,612,410
Other grants and contributions	1,352,046	1,117,947	130,833	2,600,826	3,864,712
Underwriting	1,020,169			1,020,169	1,034,888
Donated professional services, materials and facilities	58,977			58,977	248,218
Other production funding	848	177,589		178,437	161,415
Other income	978,464	320,326		1,298,790	343,614
Net assets released from restrictions	614,943	(614,943)			
<b>Total Revenues</b>	<b>21,373,952</b>	<b>1,000,919</b>	<b>130,833</b>	<b>22,505,704</b>	<b>21,404,849</b>
<b>Expenses:</b>					
Program services- Programming and content creation	6,422,331			6,422,331	5,611,029
Broadcasting	1,863,984			1,863,984	1,793,412
Program information and promotion	2,293,377			2,293,377	2,248,445
	10,579,692			10,579,692	9,652,886
Supporting services- Development and fund-raising	5,261,938			5,261,938	5,625,181
General and administrative	2,739,805			2,739,805	2,825,721
	8,001,743			8,001,743	8,450,902
<b>Total Expenses</b>	<b>18,581,435</b>			<b>18,581,435</b>	<b>18,103,788</b>
<b>Change in Net Assets</b>	<b>2,792,517</b>	<b>1,000,919</b>	<b>130,833</b>	<b>3,924,269</b>	<b>3,301,061</b>
Net assets, beginning of year	17,088,223	746,044	1,858,512	19,692,779	16,391,718
<b>Net Assets, End of Year</b>	<b>\$ 19,880,740</b>	<b>\$ 1,746,963</b>	<b>\$ 1,989,345</b>	<b>\$ 23,617,048</b>	<b>\$ 19,692,779</b>

See accompanying notes.

**CASCADE PUBLIC MEDIA AND SUBSIDIARIES**

**Consolidated Statement of Cash Flows  
For the Year Ended June 30, 2017  
(With Comparative Totals for 2016)**

	<u>2017</u>	<u>2016</u>
<b>Cash Flows From Operating Activities:</b>		
Change in net assets	\$ 3,924,269	\$ 3,301,061
Adjustments to reconcile change in net assets to net cash provided by operating activities-		
Depreciation and amortization	704,703	700,458
Contributions restricted for investment in long-term assets and endowment	(101,000)	(113,215)
Contributed furniture		(84,800)
Unrealized (gain) and loss on investments	(1,018,197)	136,818
Change in value of beneficial interest in trusts	(30,191)	(17,554)
Gain on disposal of capital equipment		(100)
Changes in operating assets and liabilities:		
Accounts, grants and contributions receivable	1,070,900	(2,170,628)
Inventories and other current assets	7,041	41,912
Accounts payable and accrued expenses	(40,761)	7,271
Deferred revenue	203,871	(186,640)
Gift annuities payable	(3,526)	(166,697)
<b>Net Cash Provided by Operating Activities</b>	<b>4,717,109</b>	<b>1,447,886</b>
<b>Cash Flows From Investing Activities:</b>		
Purchases of property and equipment	(106,221)	(609,773)
Proceeds from disposal of property and equipment		100
Purchases of investments	(10,271,410)	(7,000,056)
Proceeds from sale of investments	6,846,158	5,378,962
<b>Net Cash Used in Investing Activities</b>	<b>(3,531,473)</b>	<b>(2,230,767)</b>
<b>Cash Flows From Financing Activities:</b>		
Proceeds from contributions restricted for investment in long-term assets and endowments	101,000	113,215
Payments from beneficial interest in trusts	65,000	103,987
<b>Net Cash Provided by Financing Activities</b>	<b>166,000</b>	<b>217,202</b>
<b>Net Change in Cash and Cash Equivalents</b>	<b>1,351,636</b>	<b>(565,679)</b>
Cash and cash equivalents, beginning of year	1,431,824	1,997,503
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 2,783,460</b>	<b>\$ 1,431,824</b>

See accompanying notes.

## CASCADE PUBLIC MEDIA AND SUBSIDIARIES

### Notes to Consolidated Financial Statements For the Year Ended June 30, 2017

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#### Note 1 - Nature of Operations and Significant Accounting Policies

**Organization** - KCTS Television (KCTS), a nonprofit corporation incorporated in the State of Washington on September 16, 1983, provides service to the community through quality television programs. KCTS has operated continuously as a public television station since 1954.

On September 15, 1987, the Federal Communications Commission's (FCC) broadcast license was transferred from the University of Washington to KCTS, making it the owner and operator of KCTS. The license has been recorded at the nominal value of \$1 to represent ownership.

In order to expand on the strategy and commitment to present content across multiple platforms and serve constituents across generations, KCTS merged with Crosscut Public Media, a nonprofit daily news website (Crosscut.com), on December 2, 2015. Additionally, on November 20, 2015, KCTS Television purchased the assets of What's Good 206 (currently known as Spark Public), a local website presenting a millennial perspective on issues of the Northwest. To better reflect the expanded activities of the organization, KCTS Television changed its legal name to Cascade Public Media in December 2015.

On May 29, 2017, the Organization incorporated Friends of KCTS 9 Society in British Columbia to promote and build funding support for public media, engage communities on social and civic issues, and to build audiences and fundraising for public media in the region. No activity occurred within the entity during the year ended June 30, 2017.

KCTS provides quality educational and cultural programming through 24-hour program service distributed by transmitter, cable, and satellite to viewers in the State of Washington and Canada. This service reaches educational and public service institutions, child care providers, and others and provides them with educational tools and outreach programs that expand learning beyond the programs and the classroom. Each week, KCTS broadcasts 55 hours of educational, noncommercial, nonviolent programs for children. KCTS also develops and distributes online content. KCTS is a member of the Public Broadcasting Service (PBS) and American Public Television (APT).

KCTS is in the 14<sup>th</sup> largest television market in the United States and when combined with Canada, serves over 2 million viewers (unaudited). During the fiscal year 2017, more than 91,000 (unaudited) viewers made a contribution to KCTS. KCTS produces programs for local, regional, national, and international distribution.

Crosscut is the Pacific Northwest's reader-supported, independent, nonprofit electronic journal. Crosscut strives to provide readers with the facts and analysis they need to intelligently participate in civic discourse on politics, culture and technology.

The Channel 9 Corporation (the Corporation), a for-profit corporation, was incorporated in the State of Washington by KCTS on September 9, 1991, to provide promotional and financial support for KCTS through the marketing of products related to public television programs.

**Principles of Consolidation** - The consolidated financial statements include the accounts of Cascade Public Media, Friends of KCTS 9 Society, and the Corporation (collectively, the Organization). All significant inter-organization accounts and transactions have been eliminated.



## CASCADE PUBLIC MEDIA AND SUBSIDIARIES

### Notes to Consolidated Financial Statements For the Year Ended June 30, 2017

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#### Note 1 - Continued

**Basis of Presentation** - The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). Net assets, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted Net Assets - Unrestricted net assets include all net assets on which there are no donor-imposed restrictions for use, or such donor-imposed restrictions were temporary and expired or were met during the current or previous years.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed restrictions that will be met either by actions of the Organization or the passage of time.

Permanently Restricted Net Assets - Net assets subject to donor-imposed restrictions that they be maintained permanently by the Organization. The donors of these assets permit the Organization to use the income earned on related investments for general or specific purposes.

**Cash and Cash Equivalents** - Investments with original maturities of less than 90 days are considered to be cash equivalents, except for cash or cash equivalents associated with investment accounts. The Organization maintains its cash and cash equivalents in bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts.

**Investments** - Investments in debt and equity securities with readily determinable market values are recorded at fair value. Investments in securities traded on national securities exchanges are valued at the closing price on the last business day of the fiscal year. Securities traded on the over-the-counter market are valued at the last reported bid price. Certificates of deposit held at banks are carried at cost plus accrued interest. Unrealized and realized gains and losses on investments are reported on the consolidated statement of activities and changes in net assets.

**Accounts, Grants and Contributions Receivable** - Accounts, grants and contributions receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to change in net assets and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that remain outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts, grants, or contributions receivable. The allowance for doubtful accounts totaled \$52,100 at June 30, 2017 and 2016, respectively. Current receivables are due within one year and long-term grants receivable are due within two to five years.

**Inventories** - Inventories consist of products for sale related to public television programs. Inventories are stated based on the lower of cost (average cost method) or market.

**Costs Incurred for Programs Not Yet Telecast** - Costs incurred for programs not yet telecast represent costs of acquired programs that will be telecast subsequent to year end and, excluding overhead, costs to produce programs for which future funding can reasonably be assured. These costs are accumulated in inventories and other current assets on the consolidated statement of financial position. Such costs are expensed and included in operating expenses when the program is first telecast.

## CASCADE PUBLIC MEDIA AND SUBSIDIARIES

### Notes to Consolidated Financial Statements For the Year Ended June 30, 2017

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#### Note 1 - Continued

**Land, Property and Equipment** - Land, property and equipment are recorded at cost or, in the case of donated property, estimated fair value at the date of receipt. Depreciation, where applicable, is calculated using the straight-line method over the following estimated useful lives:

Building and improvements	40 years
Transmitter, antenna, microwave/TVRO	5 - 20 years
Studio and other broadcast and production equipment	3 - 7 years
Furniture and fixtures	5 - 10 years

**Deferred Revenue** - Deferred revenue represents primarily incentive payments received in connection with an excess capacity lease discussed in Note 7. Deferred revenue also includes unearned membership and production income.

**Contributions and Revenue Recognition** - Contribution revenue is recognized when cash is received, goods and services are donated, or when an unconditional promise is made. Conditional promises to give are not recorded as revenue until such donor conditions are met. The Organization's contributions are derived from various sources: memberships (individual pledges); underwriting (corporate pledges); nonproduction-related grants (primarily community service grants from the Corporation for Public Broadcasting); donated professional services, materials, and facilities; fund-raising events; and capital additions (funds restricted by donors for the purchase of equipment).

A portion of membership revenue is deferred at year end to cover the cost of providing a monthly program guide to members.

Revenue from production-related grants represents amounts earned by the Organization for production-related services performed. These revenues are recorded based on the percentage-of-completion method.

Marketing and other revenues are derived from royalties, advertising, and product sales. These revenues are recognized as earned. Allowances for estimated sales returns are provided when the related revenue is recorded.

**In-Kind Contributions** - The Organization receives in-kind contributions from various sources that meet the criteria for recognition under current accounting standards and are reflected in the accompanying consolidated financial statements at their fair values at the time of donation. The following in-kind contributions were recognized in the consolidated financial statements for the years ended June 30:

	<u>2017</u>	<u>2016</u>
Program promotion and advertising	\$ -	\$ 114,100
Supplies, materials and facility use	58,977	84,800
Professional services		49,318
<b>Total In-Kind Contributions</b>	<b><u>\$ 58,977</u></b>	<b><u>\$ 248,218</u></b>

**Programming and Production Expenses** - Program production costs are expensed based on the percentage-of-completion method.

## CASCADE PUBLIC MEDIA AND SUBSIDIARIES

### Notes to Consolidated Financial Statements For the Year Ended June 30, 2017

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#### Note 1 - Continued

**Advertising Costs** - The Organization expenses advertising costs as they are incurred. Advertising costs totaled approximately \$86,000 and \$127,000 for the years ended June 30, 2017 and 2016, respectively.

**Functional Allocation of Expenses** - The costs of providing the various program services and other activities have been summarized on a functional basis in the consolidated statement of activities and changes in net assets and consolidated schedule of functional expenses. Accordingly, certain costs have been allocated among the program and supporting services on the basis of benefits received.

**Income Taxes** - Cascade Public Media has received a determination letter from the Internal Revenue Service approving its tax-exempt status under Section 501(c)(3) of the Internal Revenue Code (the Code). The Corporation is a wholly owned subsidiary of Cascade Public Media and is a for-profit taxable company that files its own federal income tax returns.

The Corporation accounts for federal income taxes using the liability method, whereby deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities measured using enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Corporation had deferred tax assets aggregating approximately \$612,000 and \$614,000 at June 30, 2017 and 2016, respectively, which have been fully offset by a valuation allowance. For federal income tax purposes, the Corporation had net operating loss carryforwards of approximately \$1,789,000 at June 30, 2017, which expire between 2018 and 2036.

**Concentrations of Credit Risk** - Financial instruments which potentially subject the Organization to concentrations of credit risk consist of accounts receivable, investments and cash. At various times during the fiscal year, the Organization's bank and investment balances were in excess of the Federal Deposit Insurance Corporation (FDIC) and Securities Investor Protection Corporation (SIPC) insurance amounts.

Revenue from one entity comprised 11% of the Organization's total revenue for the year ended June 30, 2017. There were no revenue concentrations for the year ended June 30, 2016. Receivables from three individuals comprised 55% of total accounts, grants, and contributions receivable at June 30, 2017. Receivables from two organizations comprised 56% of total accounts, grants, and contributions receivable at June 30, 2016.

**Use of Estimates** - The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

**Employees** - As of June 30, 2017, the Organization employed 109 employees of whom approximately 22% are represented by a union under a collective bargaining agreement. The most recent collective bargaining agreement executed on July 23, 2015, expired June 30, 2017. Both parties will continue to operate under this expired agreement until a new agreement is negotiated.

**Prior Year Comparative Information** - The consolidated financial statements include certain prior year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a complete presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements for the year ended June 30, 2016, from which the summarized information was derived.

**Reclassifications** - Certain amounts in the 2016 consolidated financial statements have been reclassified to conform to the 2017 presentation. Such reclassifications had no effect on the change in net assets or net asset balances as previously reported.

## CASCADE PUBLIC MEDIA AND SUBSIDIARIES

### Notes to Consolidated Financial Statements For the Year Ended June 30, 2017

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#### Note 1 - Continued

**Subsequent Events** - The Organization has evaluated subsequent events through November 16, 2017, the date which the financial statements were available to be issued.

#### Note 2 - Investments

Investments consisted of the following at June 30:

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 5,553,740	\$ 4,774,022
Certificates of deposit held at banks		247,000
U.S. treasuries	254,657	257,153
Exchange traded funds	6,206,387	4,137,351
Mutual funds	6,931,753	5,087,560
Guaranteed investment accounts	3,918	3,920
<b>Total Investments</b>	<b><u>\$ 18,950,455</u></b>	<b><u>\$ 14,507,006</u></b>

Investment income consisted of the following for the years ended June 30:

	<u>2017</u>	<u>2016</u>
Net unrealized gain (loss)	\$ 1,018,197	\$ (136,818)
Interest and dividends	301,625	172,098
Net realized loss	<u>(28,989)</u>	<u>(10,063)</u>
<b>Total Investment Income</b>	<b><u>\$ 1,290,833</u></b>	<b><u>\$ 25,217</u></b>

#### Note 3 - Fair Value Measurements

U.S. GAAP establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

The three levels of the fair value hierarchy are described as follows:

Level 1 - Unadjusted quoted prices available in active markets for identical assets or liabilities;

Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and

Level 3 - Unobservable inputs that are significant to the fair value measurement.

## CASCADE PUBLIC MEDIA AND SUBSIDIARIES

### Notes to Consolidated Financial Statements For the Year Ended June 30, 2017

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#### Note 3 - Continued

A financial instrument's level within the fair value hierarchy is based upon the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at June 30, 2017 and 2016.

Cash and Cash Equivalents - Cash includes money market funds valued at cost plus accrued interest, which approximates fair value.

U.S. Treasuries, Federal Agencies Securities and Guaranteed Investment Accounts - Valued using bid evaluations from similar instruments in actively quoted markets.

Mutual Funds and Exchange Traded Funds - Valued at quoted market prices in active markets, which represent the net asset value of shares held by the Organization at year end.

Beneficial Interest in Trusts - Valued at the Organization's percentage interest in total trust assets.

The valuation methodologies used by the Organization may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization's management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

CASCADE PUBLIC MEDIA AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
For the Year Ended June 30, 2017

Note 3 - Continued

Assets recorded at fair value on a recurring basis were as follows at June 30, 2017 and 2016:

	Fair Value Measurements as of June 30, 2017			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 5,553,740	\$ -	\$ -	\$ 5,553,740
U.S. treasuries	148,023			148,023
U.S. Federal agencies securities		106,634		106,634
Exchange traded funds	6,206,387			6,206,387
Guaranteed investment accounts		3,918		3,918
Mutual funds-				
Blend	71,655			71,655
Fixed income	3,527,312			3,527,312
Money market	1,283,618			1,283,618
Growth	2,049,168			2,049,168
	6,931,753			6,931,753
Beneficial interest in trusts			806,338	806,338
<b>Total at June 30, 2017</b>	<b>\$ 18,839,903</b>	<b>\$ 110,552</b>	<b>\$ 806,338</b>	<b>\$ 19,756,793</b>
	Fair Value Measurements as of June 30, 2016			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 4,774,022	\$ -	\$ -	\$ 4,774,022
U.S. treasuries	137,088			137,088
U.S. Federal agencies securities		120,065		120,065
Exchange traded funds	4,137,351			4,137,351
Guaranteed investment accounts		3,920		3,920
Mutual funds-				
Blend	61,661			61,661
Fixed income	2,371,179			2,371,179
Money market	1,273,925			1,273,925
Growth	1,380,795			1,380,795
	5,087,560			5,087,560
Beneficial interest in trusts			841,147	841,147
<b>Total at June 30, 2016</b>	<b>\$ 14,136,021</b>	<b>\$ 123,985</b>	<b>\$ 841,147</b>	<b>\$ 15,101,153</b>

**CASCADE PUBLIC MEDIA AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements  
For the Year Ended June 30, 2017**

**Note 3 - Continued**

A reconciliation of the beginning and ending balances of beneficial interests in trusts, for which fair value measurements are made using significant unobservable inputs (Level 3) follows:

	<u>2017</u>	<u>2016</u>
Balance, beginning of year	\$ 841,147	\$ 927,580
Proceeds received	(65,000)	(103,987)
Contributions of beneficial interest trusts		8,107
Total realized and unrealized gain	<u>30,191</u>	<u>9,447</u>
<b>Balance, End of Year</b>	<b><u>\$ 806,338</u></b>	<b><u>\$ 841,147</u></b>

Total realized and unrealized gain related to Level 3 assets are included in the change in net assets reported within other income on the consolidated statement of activities and changes in net assets.

**Note 4 - Land, Property and Equipment**

Land, property and equipment are summarized as follows:

	<u>2017</u>	<u>2016</u>
Land	\$ 128,371	\$ 128,371
Building and improvements	8,915,479	8,915,479
Transmitter, antenna, microwave/TVRO	3,404,772	3,404,772
Studio and other broadcast and production equipment	19,912,686	19,740,697
Furniture and fixtures	<u>580,498</u>	<u>580,498</u>
	32,941,806	32,769,817
Less accumulated depreciation	<u>(29,170,912)</u>	<u>(28,466,209)</u>
	3,770,894	4,303,608
Construction-in-progress	<u>335,916</u>	<u>401,684</u>
<b>Total Land, Property and Equipment</b>	<b><u>\$ 4,106,810</u></b>	<b><u>\$ 4,705,292</u></b>

**Note 5 - Split-Interest Agreements**

**Gift Annuities** - The Organization administers gift annuities for which it is obligated to make periodic distributions to designated beneficiaries. The Organization uses the actuarial method of recording these funds using discount rates ranging from 4.00% to 6.75%. Under this method, when a donation is received, the present value of the guaranteed distributions, based on life expectancy tables, is recorded as a liability, and the remaining interest is recorded as revenue. Periodic adjustments are made between the liability, revenues and expenses to record actuarial gains and losses. Net related gains on gift annuities totaled \$6,465 and \$360,404 for the years ended June 30, 2017 and 2016, respectively, and are included in other income on the consolidated statement of activities and changes in net assets.

## CASCADE PUBLIC MEDIA AND SUBSIDIARIES

### Notes to Consolidated Financial Statements For the Year Ended June 30, 2017

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#### Note 5 - Continued

**Beneficial Interest in Trusts** - The Organization was named as the beneficiary of two irrevocable charitable remainder unitrusts. Under the trust agreements, the trust donors receive annual distributions from trusts during their lifetimes, after which the remaining trust assets will be distributed to the Organization. The Organization has recorded its beneficial interest in these trusts as an asset equal to the present value of the expected funds to be received using a discount rate of 2.4% and 1.8% for each fund, respectively. During the year ended June 30, 2016 one of the trust donors passed and the remaining trust assets were distributed to the Organization. The change in value of charitable remainder trusts totaled \$359 and \$9,447 for the years ended June 30, 2017 and 2016, respectively, and is included in other income on the consolidated statement of activities and changes in net assets.

**Beneficial Interest in Charitable Lead Annuity Trust** - During the year ended June 30, 2015, the Organization received a beneficial interest in a charitable lead annuity trust. The Organization's endowment fund will receive annual distributions from the trust; the first distribution of \$21,667 was received on December 19, 2014, followed by annual payments of \$65,000 and a final payment of \$43,333 due on December 19, 2032. The Organization's beneficial interest in this charitable lead annuity trust is recorded at the net present value (discounted at 4.0%) of the future distributions on the consolidated statement of financial position and is included as a component of permanently restricted net assets.

#### Note 6 - Line of Credit

On December 19, 2015, the Organization entered into an agreement with Morgan Stanley Smith Barney (MSSB) to open a line of credit using investments held with MSSB as collateral. In accordance with the agreement, the Organization may borrow up to \$3,990,000. Interest is to be charged at a variable rate of LIBOR plus 2.75%. Payments on any outstanding draws on the line are made upon demand of MSSB. There was no outstanding balance at June 30, 2017 or 2016.

#### Note 7 - Lease Agreements

**Building and Studio Facility Land** - On December 12, 1984, the Organization entered into a long-term lease agreement with the City of Seattle (the City) for a site to locate the KCTS building and studio facility. The lease agreement is for a term of 40 years and called for an initial annual base lease payment of \$130,000. At the end of the lease, the City may negotiate with the Organization amongst the following options: to renew the lease; to sell the land to the Organization at the land's appraised value; to repurpose the building and purchase it from the Organization at the building's appraised value; or to take the building out of service in which case the building will be deemed to have no value. The terms of the lease require the Organization to operate a television facility. An escalation clause calls for the annual base payment to be adjusted once every five years, beginning in 1992, to reflect the total percentage change in the Consumer Price Index (CPI). Each five year adjustment may not exceed 27.63%.

**Other Leases** - The Organization subleases space for the operation of television receiver and transmitting equipment with a term expiring in 2018 and annual rent of \$3,000. The Organization also leases office equipment under leases with terms expiring through 2021 and total monthly lease payments ranging from \$250 to \$617.



## CASCADE PUBLIC MEDIA AND SUBSIDIARIES

### Notes to Consolidated Financial Statements For the Year Ended June 30, 2017

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#### Note 7 - Continued

Future minimum lease payments under noncancelable operating leases are as follows:

For the Year Ending June 30,

2018	\$	330,464
2019		327,464
2020		327,464
2021		319,635
2022		313,178
Thereafter		<u>782,945</u>
<b>Total Minimum Lease Payments</b>	<b>\$</b>	<b><u>2,401,150</u></b>

Rent expense for operating leases totaled \$413,997 and \$413,227 for the years ended June 30, 2017 and 2016, respectively.

**Excess Capacity Lease** - The Organization has an excess capacity lease agreement between the Organization and Clearwire Spectrum Holdings III, LLC (Clearwire) for use of excess capacity for a period with renewable terms of up to 30 years from the lease execution date of April 11, 2001. Under the terms of the agreement, Clearwire made certain incentive payments. The total of all incentive payments has been deferred as income and will be recognized as revenue over the maximum 30 year lease term on the consolidated statement of financial position as of June 30, 2017 and 2016. In addition, Clearwire agreed to pay monthly fees ranging from \$160,000 to \$377,050 throughout the lease term, subject to amendment based on actual capacity usage and changes in geographic service areas.

**Tower Leases** - The Organization entered into a tower lease agreement with King County, a municipal corporation and political subdivision of the State of Washington, on December 1, 2005. Under the terms of the lease, the Organization rents space on its transmission tower to King County for installation of communications equipment for the King County Metro Transit system. The lease runs from September 1, 2007 through September 1, 2012, with three automatic five year extensions, at a rate of \$1,600 per month, with annual rate adjustments at the lesser of 4% or the increase in the CPI. The first renewal period of the lease was entered into beginning September 1, 2012. The second renewal period began September 1, 2017.

On February 25, 2010, the Organization entered into a second tower lease agreement with King County to rent additional space on its transmission tower to operate communication facilities in the Seattle area. The lease runs from January 1, 2010 through December 31, 2014, with three automatic five year extensions, at a rate of \$885 per month, with annual rate adjustments at the lesser of 4% or the increase in the CPI. The first renewal period of the lease was entered into beginning January 1, 2015.

On September 29, 2016, the Organization entered into an excess capacity lease agreement between the Organization and Friends of KEXP to rent additional space on its transmission tower to operate communication facilities in the Seattle area. The lease was retroactive to April 1, 2016 to include the free rent period. The lease term expires on March 31, 2021. Monthly payments are \$4,265 with a 3% annual increase.

## CASCADE PUBLIC MEDIA AND SUBSIDIARIES

### Notes to Consolidated Financial Statements For the Year Ended June 30, 2017

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#### Note 7 - Continued

On January 20, 2017, the Organization entered into a lease agreement with an unrelated third party to rent private office space at the Organization's 401 Mercer building. The lease is for a twenty month period beginning on January 1, 2017 and ending on August 31, 2018. Monthly payments are \$3,053 beginning with the date of actual occupancy and use of the premises by the tenant.

#### Note 8 - Benefit Plans

The Organization has a defined contribution 401(k) plan covering substantially all permanent employees of KCTS Television and Channel 9 Corporation. Under the 401(k) plan, the Organization makes matching contributions in an amount equal to 25% of deferrals up to the first 6% of employees' eligible compensation contributed to the Plan. Participants are 100% vested in elective contributions and matching contributions. In addition, the Organization may make discretionary nonelective contributions. Discretionary nonelective contributions for the years ended June 30, 2017 and 2016, were 5% of the participant's gross annual wages, plus 5% of the participant's gross annual wages in excess of the year's Social Security wage base. Participants become fully vested in the nonelective contributions to the plan after six years of service with the Organization. The Organization made employer contributions to the 401(k) plan totaling approximately \$335,000 and \$277,000 for the years ended June 30, 2017 and 2016, respectively.

#### Note 9 - Unrestricted Net Assets

Unrestricted net assets consist of the following at June 30:

	<u>2017</u>	<u>2016</u>
KCTS - General Fund	\$ 12,170,941	\$ 12,929,700
KCTS - Board-Designated Quasi Endowment Fund	9,219,471	5,673,636
KCTS - Board-Designated Capital Fund	278,065	278,065
Channel 9 Corporation	<u>(1,787,737)</u>	<u>(1,793,178)</u>
<b>Total Unrestricted Net Assets</b>	<b><u>\$ 19,880,740</u></b>	<b><u>\$ 17,088,223</u></b>

**KCTS Board-Designated Quasi Endowment Fund** - The Board-Designated Quasi Endowment Fund was established by the Board during the year ended June 30, 2010. The fund consists of unrestricted bequests, other funds designated by the Board, and their respective earnings designated for the benefit of the Organization.

**KCTS Board-Designated Capital Fund** - The Board-Designated Capital Fund was established by the Board during the year ended June 30, 2011. The fund consists of unrestricted funds designated by the Board for purchase of approved capital assets.

**Channel 9 Corporation** - The Channel 9 Corporation amount relates to accumulated net losses from operations.

## CASCADE PUBLIC MEDIA AND SUBSIDIARIES

### Notes to Consolidated Financial Statements For the Year Ended June 30, 2017

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#### Note 10 - Temporarily Restricted Net Assets

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

	<u>2017</u>	<u>2016</u>
Program Services	\$ 826,058	\$ -
Capital Fund	315,725	315,683
Annuity and Life Income Fund	30,674	30,317
Accumulated Endowment Earnings	<u>574,506</u>	<u>400,044</u>
<b>Total Temporarily Restricted Net Assets</b>	<b><u>\$ 1,746,963</u></b>	<b><u>\$ 746,044</u></b>

**Program Services** - This fund represents amounts received by the Organization with specific programming restrictions.

**Capital Fund** - The Capital Fund consists of funds that are restricted by donors to be used for the purchase of equipment.

**Annuity and Life Income Fund** - The Annuity and Life Income Fund represents funds obtained by the Organization subject to obligations for periodic payments of stipulated amounts to the donors or beneficiaries.

**Accumulated Endowment Earnings** - The Accumulated Endowment Earnings represent accumulated unspent earnings on permanently restricted endowments.

#### Note 11 - Permanently Restricted Net Assets and Endowments

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

	<u>2017</u>	<u>2016</u>
General	\$ 194,836	\$ 128,836
Beneficial interest in trust	775,664	810,831
Russell Myes Rowe	50,000	50,000
Dorothy Stevens	33,014	33,014
NW Endowment Fund	610,000	510,000
Robertson Fund	<u>325,831</u>	<u>325,831</u>
<b>Total Permanently Restricted Net Assets</b>	<b><u>\$ 1,989,345</u></b>	<b><u>\$ 1,858,512</u></b>

The Organization's endowments consist of funds established through gifts, legacies, and bequests that were accepted with donor restrictions to have funds permanently invested and funds designated by the Board to operate as an endowment for the benefit of the Organization (quasi-endowment). Earnings from permanently restricted net assets are to be used for funding educational programming and general operations of the Organization. Earnings on the quasi-endowment are to be used to support the Organization. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

CASCADE PUBLIC MEDIA AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
For the Year Ended June 30, 2017

**Note 11 - Continued**

**Interpretation of Relevant Law** - The Board has interpreted the Washington State Prudent Management of Institutional Funds Act (PMIFA) as making it advisable for the Organization to track 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, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) 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 the Organization in a manner consistent with the standard of prudence prescribed by PMIFA. In accordance with PMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund;
- The purposes of the Organization and the donor-restricted endowment fund;
- General economic conditions;
- The possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments;
- Other resources of the Organization; and
- The investment policies of the Organization.

Endowment net assets consisted of the following at June 30:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Quasi-endowment	\$ 9,219,471	\$ -	\$ -	\$ 9,219,471
Donor restricted endowment		<u>574,506</u>	<u>1,213,681</u>	<u>1,788,187</u>
<b>Endowment Net Assets, June 30, 2017</b>	<b><u>\$ 9,219,471</u></b>	<b><u>\$ 574,506</u></b>	<b><u>\$ 1,213,681</u></b>	<b><u>\$ 11,007,658</u></b>
<b>Endowment Net Assets, June 30, 2016</b>	<b><u>\$ 5,673,636</u></b>	<b><u>\$ 400,044</u></b>	<b><u>\$ 1,047,681</u></b>	<b><u>\$ 7,932,192</u></b>

**CASCADE PUBLIC MEDIA AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements  
For the Year Ended June 30, 2017**

**Note 11 - Continued**

Changes to endowment net assets are as follows for the years ended June 30:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2017 Total</u>	<u>2016 Total</u>
Endowment net assets, beginning of year	\$ 5,673,636	\$ 400,044	\$ 1,047,681	\$ 7,121,361	\$ 6,219,190
Endowment investment return-					
Interest and dividends	210,933	44,793		255,726	140,277
Realized and unrealized gain (loss)	<u>710,620</u>	<u>166,153</u>		<u>876,773</u>	<u>(159,792)</u>
Total endowment investment return	921,553	210,946		1,132,499	(19,515)
Donor endowment contribution and collections on beneficial interest in trust			166,000	166,000	76,169
Funds designated for quasi-endowment	2,624,282			2,624,282	867,233
Appropriation of endowment for expenditure		<u>(36,484)</u>		<u>(36,484)</u>	<u>(21,716)</u>
<b>Endowment Net Assets, End of Year</b>	<b><u>\$ 9,219,471</u></b>	<b><u>\$ 574,506</u></b>	<b><u>\$ 1,213,681</u></b>	<b><u>\$ 11,007,658</u></b>	<b><u>\$ 7,121,361</u></b>

**Funds With Deficiencies** - From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or PMIFA requires the Organization to retain as a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature are reported in unrestricted net assets. At June 30, 2017 and 2016, there were no deficiencies.

**Return Objectives and Risk Parameters** - The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets.

Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for donor-specified periods as well as board-designated funds. Under this policy, as approved by the Board, the endowment assets are invested in approximately 60% stocks and 40% fixed income investments, including cash.

## CASCADE PUBLIC MEDIA AND SUBSIDIARIES

### Notes to Consolidated Financial Statements For the Year Ended June 30, 2017

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#### Note 11 - Continued

**Strategies Employed for Achieving Objectives** - To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

**Spending Policy and How the Investment Objectives Relate to Spending Policy** - The spending policy, expressed as a percentage of market value of the endowment, is determined on a year-to-year basis by the Board upon recommendation of the Finance and Audit Committee. In recommending a spending policy for a given fiscal year, the Finance and Audit Committee shall take in to consideration total return which allows both realized and unrealized income to be withdrawn. The Finance and Audit Committee will review the spending policy periodically in light of actual returns to make spending adjustments necessary to preserve the purchasing power of the endowment. Distributions will be made on an annual basis as a percentage of the average market value of the portfolio over the immediately preceding twelve quarters. The percentage used will be determined by the Finance and Audit Committee based on a "prudent person" standard, which will be approved by the Board. There will be no distribution made from Endowments in place less than one year and in no event will an Endowment be reduced below 80% of the corpus.

#### Note 12 - Pacific Coast Public Television Association

Pacific Coast Public Television Association (Pacific Coast) is a Canadian tax-exempt, nonprofit organization that, by contract, provides financial support to the Organization's educational programming. As part of the contractual agreement, the Organization gives Pacific Coast on-air credits, grants the Organization member status to Pacific Coast contributors, and provides fund-raising services on a cost-reimbursement basis. Amounts received from Pacific Coast in support of the Organization's educational programming have been recorded as membership revenue and totaled approximately \$875,000 and \$1,986,000 for the years ended June 30, 2017 and 2016, respectively. The revenues earned under this agreement have been translated into U.S. dollars. Foreign currency translation adjustments resulted in losses of approximately (\$2,000) and (\$21,000) for the years ended June 30, 2017 and 2016, respectively, and have been reported in the consolidated statement of activities and changes in net assets. Amounts due from Pacific Coast amounted to approximately \$183,000 at June 30, 2016. There were no amounts due at June 30, 2017. Subsequent to June 30, 2017, the members and board of directors of Pacific Coast passed a resolution to cease operations and request that Corporations Canada dissolve the organization.

#### Note 13 - Joint Venture

In 1998, KCTS became a noncontrolling member in a limited liability company, Public Television Major Market Group, LLC (the LLC). The limited liability company was formed to take a leadership position within and outside public television in developing positions and taking actions to affect the outcome of major public television issues. Among the other purposes, it was to provide a forum for evaluating proposals for collaborative and other ventures with third parties for revenue generating and other opportunities for the use of digital technology. Contributions totaled \$8,500 and \$8,495 for the years ended June 30, 2017 and 2016, respectively. Investment in the LLC is combined with other long-term assets on the consolidated statement of financial position.

#### Note 14 - Contingencies

The Organization is involved, from time to time, in various claims, regulatory audits and other legal issues arising in the normal course of business. Management believes that any uninsured costs that may be incurred in the settlement of such claims would not be material to the Organization's financial position.

**SUPPLEMENTARY INFORMATION**

CASCADE PUBLIC MEDIA AND SUBSIDIARIES

Consolidated Schedule of Functional Expenses  
For the Year Ended June 30, 2017  
(With Comparative Totals for 2016)

	Program Services			Supporting Services			Total Expenses		
	Programming and Content Creation	Broadcasting	Program Information and Promotion	Total Program Services	Development and Fund Raising	General and Administrative	Total Supporting Services	2017	2016
Salaries, payroll taxes and benefits	\$ 2,388,524	\$ 1,292,339	\$ 1,514,501	\$ 5,195,364	\$ 2,006,770	\$ 1,211,980	\$ 3,218,750	\$ 8,414,114	\$ 7,795,290
Program acquisition	2,613,025		984	2,614,009				2,614,009	2,301,960
Professional services	705,443	37,803	231,043	974,289	531,868	447,945	979,813	1,954,102	2,154,879
Printing and postage	29,239	645	363,522	393,406	1,109,359	12,256	1,121,615	1,515,021	1,260,049
Advertising and promotion	24,668		53,789	78,457	843,933	8,431	852,364	930,821	1,508,340
Depreciation and amortization	240,563	164,643	28,268	433,474	88,115	183,114	271,229	704,703	700,458
Supplies, rental and maintenance of equipment	57,626	131,347	38,208	227,181	117,045	314,914	431,959	659,140	554,991
Occupancy	204,399	138,340	28,864	371,603	107,179	61,375	168,554	540,157	550,193
Licenses, permits and fees	52,814		3,922	56,736	256,695	33,067	289,762	346,498	271,887
Travel, conferences and training	84,802	8,720	22,576	116,098	100,914	60,799	161,713	277,811	272,814
Insurance	405			405		204,968	204,968	205,373	196,446
Telephones	767	85,630	286	86,683	14,561	72,068	86,629	173,312	177,024
Membership and dues	3,707	145	1,250	5,102	3,822	57,292	61,114	66,216	68,146
Donated professional services, materials and facilities	5,294	3,189	6,164	14,647	30,067	14,263	44,330	58,977	163,418
Cost of goods sold					1,447		1,447	1,447	15,533
Miscellaneous	11,055	1,183		12,238	50,163	57,333	107,496	119,734	112,360
<b>Total Expenses</b>	<b>\$ 6,422,331</b>	<b>\$ 1,863,984</b>	<b>\$ 2,293,377</b>	<b>\$ 10,579,692</b>	<b>\$ 5,261,938</b>	<b>\$ 2,739,805</b>	<b>\$ 8,001,743</b>	<b>\$ 18,581,435</b>	<b>\$ 18,103,788</b>

See independent auditor's report.