CASCADE PUBLIC MEDIA AND SUBSIDIARIES

Consolidated Financial Statements

For the Year Ended June 30, 2018

Table of Contents

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, 2018, 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.

CN

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

10900 NE 4th St
Suite 1400
Bellevue WA
98004

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, 2018, 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 2017 consolidated financial statements and expressed an unmodified opinion on those audited financial statements in our report dated November 16, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, 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 and consolidating schedule of financial position on pages 22 and 23 are presented for purposes of additional analysis and are 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 P.S.

Certified Public Accountants
November 15, 2018

CASCADE PUBLIC MEDIA AND SUBSIDIARIES

Consolidated Statement of Financial Position
June 30, 2018
(With Comparative Totals for 2017)

	2018	2017
Assets		
Current Assets:		
Cash and cash equivalents	$ 3,627,736	$ 2,783,460
Investments held for short-term purposes	7,157,717	6,626,726
Accounts, grants and contributions receivable, net	817,815	1,918,564
Inventories and other current assets	318,808	237,108
Total Current Assets	**11,922,076**	**11,565,858**
Long-term grants receivable	150,000	33,515
Investments held for long-term purposes	15,721,353	12,323,729
Beneficial interest in trust	769,892	806,338
Land, property and equipment, net	4,002,910	4,106,810
Other assets	86,334	85,957
Total Assets	**$ 32,652,565**	**$ 28,922,207**
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable and accrued expenses	$ 1,865,411	$ 1,906,232
Deferred revenue	1,139,380	931,460
Total Current Liabilities	**3,004,791**	**2,837,692**
Gift annuities payable	465,107	468,891
Long-term portion of accrued expenses	168,391	165,470
Long-term portion of deferred revenue	1,749,772	1,833,106
Total Liabilities	**5,388,061**	**5,305,159**
Net Assets:		
Unrestricted	22,836,851	19,880,740
Temporarily restricted	2,409,819	1,746,963
Permanently restricted	2,017,834	1,989,345
Total Net Assets	**27,264,504**	**23,617,048**
Total Liabilities and Net Assets	**$ 32,652,565**	**$ 28,922,207**

See accompanying notes.

CASCADE PUBLIC MEDIA AND SUBSIDIARIES

Consolidated Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2018
(With Comparative Totals for 2017)

	2018				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2017 Total
Revenues:					
Memberships	$ 12,654,459	$ -	$ -	$ 12,654,459	$ 12,711,517
Royalties, fees and other services	2,893,883			2,893,883	2,845,729
Community service grants from the Corporation for Public Broadcasting	1,889,713			1,889,713	1,791,259
Other grants and contributions	2,023,934	1,014,148	28,427	3,066,509	2,600,826
Underwriting	1,023,397	73,381		1,096,778	1,020,169
Donated professional services, materials and facilities	162,718			162,718	58,977
Other production funding	19,012	225,688		244,700	178,437
Other income	783,296	211,838	62	995,196	1,298,790
Net assets released from restrictions	862,199	(862,199)			
Total Revenues	**22,312,611**	**662,856**	**28,489**	**23,003,956**	**22,505,704**
Expenses:					
Program services-					
Programming and content creation	6,473,784			6,473,784	6,422,331
Broadcasting	2,268,589			2,268,589	1,863,984
Program information and promotion	2,658,961			2,658,961	2,293,377
	11,401,334			11,401,334	10,579,692
Supporting services-					
Development and fund-raising	4,848,050			4,848,050	5,261,938
General and administrative	3,107,116			3,107,116	2,739,805
	7,955,166			7,955,166	8,001,743
Total Expenses	**19,356,500**			**19,356,500**	**18,581,435**
Change in Net Assets	**2,956,111**	**662,856**	**28,489**	**3,647,456**	**3,924,269**
Net assets, beginning of year	19,880,740	1,746,963	1,989,345	23,617,048	19,692,779
Net Assets, End of Year	**$ 22,836,851**	**$ 2,409,819**	**$ 2,017,834**	**$ 27,264,504**	**$ 23,617,048**

See accompanying notes.

CASCADE PUBLIC MEDIA AND SUBSIDIARIES

Consolidated Statement of Cash Flows
For the Year Ended June 30, 2018
(With Comparative Totals for 2017)

	2018	2017
Cash Flows From Operating Activities:		
Change in net assets	$ 3,647,456	$ 3,924,269
Adjustments to reconcile change in net assets to		
net cash provided by operating activities-		
Depreciation and amortization	826,320	704,703
Contributions restricted for investment		
in long-term assets and endowment	(62)	(101,000)
Unrealized gain on investments	(458,876)	(1,018,197)
Change in value of beneficial interest in trusts	(28,554)	(30,191)
Changes in operating assets and liabilities:		
Accounts, grants and contributions receivable	984,264	1,070,900
Inventories and other current assets	(82,077)	7,041
Accounts payable and accrued expenses	(37,900)	(40,761)
Deferred revenue	124,586	203,871
Gift annuities payable	(3,784)	(3,526)
Net Cash Provided by Operating Activities	**4,971,373**	**4,717,109**
Cash Flows From Investing Activities:		
Purchases of property and equipment	(722,420)	(106,221)
Purchases of investments	(9,783,601)	(10,271,410)
Proceeds from sale of investments	6,313,862	6,846,158
Net Cash Used in Investing Activities	**(4,192,159)**	**(3,531,473)**
Cash Flows From Financing Activities:		
Proceeds from contributions restricted for		
investment in long-term assets and endowments	62	101,000
Payments from beneficial interest in trusts	65,000	65,000
Net Cash Provided by Financing Activities	**65,062**	**166,000**
Net Change in Cash and Cash Equivalents	**844,276**	**1,351,636**
Cash and cash equivalents, beginning of year	2,783,460	1,431,824
Cash and Cash Equivalents, End of Year	**$ 3,627,736**	**$ 2,783,460**

See accompanying notes.

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. 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.

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 in addition to its KCTS Kids 24/7 channel dedicated to children's programming (unaudited). 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 12th largest television market in the United States and when combined with Canada, serves over 1.8 million viewers (unaudited). During the fiscal year 2018, more than 99,700 (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.

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. Brokered certificates of deposit are reported at fair value based on active markets. 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, 2018 and 2017. 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.

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 or remaining lease term
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:

	2018	2017
Program promotion and advertising	$ 40,768	$ -
Supplies, materials and facility use	121,950	58,977
Total In-Kind Contributions	**$ 162,718**	**$ 58,977**

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

Advertising Costs - The Organization expenses advertising costs as they are incurred. Advertising costs totaled approximately $162,000 and $86,000 for the years ended June 30, 2018 and 2017, respectively.

Note 1 - Continued

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 $374,000 and $612,000 at June 30, 2018 and 2017, respectively, which have been fully offset by a valuation allowance. For federal income tax purposes, the Corporation had net operating loss carryforwards of approximately $1,777,000 at June 30, 2018, which expire between 2019 and 2036.

The enactment of the Tax Reform and Jobs Act (the Act) in December 2017 reduced the U.S. federal statutory rate for C corporations from 34% to 21% for tax years beginning after December 31, 2017. Deferred taxes are measured using provisions of currently enacted tax laws; therefore, this lower 21% rate is utilized in the computation of the estimated deferred tax asset for temporary timing differences that exist as of June 30, 2018, as these timing differences will be realized in future periods at the lower rate.

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 years ended June 30, 2018 and June 30, 2017. Receivables from one individual and one organization comprised 53% of total accounts, grants, and contributions receivable at June 30, 2018. Receivables from three individuals comprised 57% of total accounts, grants, and contributions receivable at June 30, 2017.

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, 2018, the Organization employed 115 employees of whom approximately 22% are represented by a union under a collective bargaining agreement. Since June 30, 2017, both parties continued to operate under an expired agreement. A new collective bargaining agreement was entered into on September 5, 2018 and is effective until June 30, 2021.

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, 2017, from which the summarized information was derived.

Note 1 - Continued

Subsequent Events - The Organization has evaluated subsequent events through November 15, 2018, the date on which the financial statements were available to be issued.

Note 2 - Investments

Investments consisted of the following at June 30:

	2018	2017
Cash and cash equivalents	$ 2,709,899	$ 5,553,740
Certificates of deposit	565,867	
U.S. treasuries		254,657
Exchange traded funds	7,640,398	6,206,387
Mutual funds	11,958,974	6,931,753
Guaranteed investment accounts	3,932	3,918
Total Investments	**$ 22,879,070**	**$ 18,950,455**

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

	2018	2017
Net unrealized gain	$ 458,876	$ 1,018,197
Interest and dividends	530,775	301,625
Net realized loss	(1,554)	(28,989)
Total Investment Income	**$ 988,097**	**$ 1,290,833**

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.

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, 2018 and 2017.

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

Certificates of Deposit - Brokered certificates of deposit are valued using quoted market prices in active markets for similar instruments.

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.

Note 3 - Continued

Assets recorded at fair value on a recurring basis were as follows at June 30:

	Fair Value Measurements as of June 30, 2018			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 2,709,899	$ -	$ -	$ 2,709,899
Certificates of deposit		565,867		565,867
Exchange traded funds	7,640,398			7,640,398
Guaranteed investment accounts		3,932		3,932
Mutual funds-				
Blend	69,143			69,143
Fixed income	8,064,264			8,064,264
Money market	1,339,165			1,339,165
Growth	2,486,402			2,486,402
	11,958,974			11,958,974
Beneficial interest in trusts			769,892	769,892
Total at June 30, 2018	**$ 22,309,271**	**$ 569,799**	**$ 769,892**	**$ 23,648,962**

	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
Total at June 30, 2017	**$ 18,839,903**	**$ 110,552**	**$ 806,338**	**$ 19,756,793**

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:

	2018	2017
Balance, beginning of year	$ 806,338	$ 841,147
Proceeds received	(65,000)	(65,000)
Total realized and unrealized gain	28,554	30,191
Balance, End of Year	**$ 769,892**	**$ 806,338**

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:

	2018	2017
Land	$ 128,371	$ 128,371
Building and improvements	9,200,609	8,915,479
Transmitter, antenna, microwave/TVRO	3,404,772	3,404,772
Studio and other broadcast and production equipment	20,309,934	19,912,686
Furniture and fixtures	647,110	580,498
	33,690,796	32,941,806
Less accumulated depreciation	(29,888,715)	(29,170,912)
	3,802,081	3,770,894
Construction-in-progress	200,829	335,916
Total Land, Property and Equipment, Net	**$ 4,002,910**	**$ 4,106,810**

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 3.75% 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 $6,533 and $6,465 for the years ended June 30, 2018 and 2017, respectively, and are included in other income on the consolidated statement of activities and changes in net assets.

Note 5 - Continued

Beneficial Interest in Trust - The Organization was named as the beneficiary of an irrevocable charitable remainder unitrust. Under the trust agreement, the trust donor receives annual distributions from the trust during their lifetime, after which the remaining trust assets will be distributed to the Organization. The Organization has recorded its beneficial interest in the trust as an asset equal to the present value of the expected funds to be received using a discount rate of 3.4% and 2.4% for the years ended June 30, 2018 and 2017, respectively. The change in value of charitable remainder trust totaled $127 and $359 for the years ended June 30, 2018 and 2017, 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, 2018 or 2017.

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 $1,048.

Note 7 - Continued

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

For the Year Ending June 30,		
2019	$	343,481
2020		343,481
2021		335,652
2022		314,664
2023		313,616
Thereafter		470,424
Total Minimum Lease Payments	**$**	**2,121,318**

Rent expense for operating leases totaled $433,375 and $413,997 for the years ended June 30, 2018 and 2017, 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 activities and changes in net assets for the years ended June 30, 2018 and 2017. 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. Subsequent to June 30, 2018, the terms of the lease were amended to change the locations of antennas on the tower, increase monthly installment payments to $3,104, and maintain annual rate adjustments.

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 with 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 and expires on March 31, 2021. Monthly payments are $4,265 with a 3% annual increase.

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 Street building. The lease was for a twenty month period beginning on January 1, 2017 and ending on August 31, 2018. During the year ended June 30, 2018, the lease term was extended two weeks. Monthly payments were $3,053 beginning with the date of actual occupancy and use of the premises by the tenant.

On May 2, 2018, the Organization entered into a lease agreement with King County, a municipal corporation and political subdivision of the State of Washington, leasing tower space for the establishment of the Puget Sound Emergency Radio Network. The lease runs from August 1, 2018 through July 31, 2043, with three automatic five-year extensions, at a rate of $16,600 per month. Monthly rent will increase by 1.5% on each anniversary of the commencement date. Rent will be reduced by $2,000 per month for the first sixteen years of the lease as consideration for the cost of improvements the lessee intends to perform.

On September 10, 2018, the Organization entered into a lease agreement renting office space within the Organization's 401 Mercer Street building to the City of Seattle. The lease runs from September 17, 2018 through December 31, 2024 with initial basic rent of $3,125 per month and adjusted January 1, 2020 and each January 1 thereafter by the lesser of 3% or the positive percentage change in the Consumer Price Index (CPI).

Estimated future lease payments to be received under noncancelable operating leases are as follows:

For the Year Ending June 30,	
2019	$ 2,753,471
2020	2,851,971
2021	2,935,783
2022	3,019,083
2023	3,107,966
Thereafter	71,816,879
Total Future Lease Revenue	**$ 86,485,153**

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, 2018 and 2017, 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 $297,000 and $335,000 for the years ended June 30, 2018 and 2017, respectively.

Note 9 - Unrestricted Net Assets

Unrestricted net assets consist of the following at June 30:

	2018	2017
KCTS - General Fund	$ 12,708,463	$ 12,170,941
KCTS - Board-Designated Quasi Endowment Fund	11,626,483	9,219,471
KCTS - Board-Designated Capital Fund	278,065	278,065
Channel 9 Corporation	(1,776,160)	(1,787,737)
Total Unrestricted Net Assets	**$ 22,836,851**	**$ 19,880,740**

KCTS Board-Designated Quasi Endowment Fund - The Board-Designated Quasi Endowment Fund was established 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 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.

Note 10 - Temporarily Restricted Net Assets

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

	2018	2017
Program Services	$ 1,386,948	$ 826,058
Capital Fund	316,051	315,725
Annuity and Life Income Fund	30,801	30,674
Accumulated Endowment Earnings	676,019	574,506
Total Temporarily Restricted Net Assets	**$ 2,409,819**	**$ 1,746,963**

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:

	2018	2017
General	$ 259,836	$ 194,836
Beneficial interest in trust	739,091	775,664
Russell Myes Rowe	50,000	50,000
Dorothy Stevens	33,014	33,014
NW Endowment Fund	610,000	610,000
Robertson Fund	325,893	325,831
Total Permanently Restricted Net Assets	**$ 2,017,834**	**$ 1,989,345**

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.

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.

Note 11 - Continued

Endowment net assets consist of the following at June 30:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Quasi-endowment	$ 11,626,483	$ -	$ -	$ 11,626,483
Donor restricted endowment		676,019	1,278,743	1,954,762
Endowment Net Assets, June 30, 2018	**$ 11,626,483**	**$ 676,019**	**$ 1,278,743**	**$ 13,581,245**
Endowment Net Assets, June 30, 2017	**$ 9,219,471**	**$ 574,506**	**$ 1,213,681**	**$ 11,007,658**

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	2018 Total	2017 Total
Endowment net assets, beginning of year	$ 9,219,471	$ 574,506	$ 1,213,681	$ 11,007,658	$ 7,121,361
Endowment investment return-					
Interest and dividends	336,116	59,245		395,361	255,726
Realized and unrealized gain	344,866	72,514		417,380	876,773
Total endowment investment return	680,982	131,759		812,741	1,132,499
Donor endowment contribution and collections on beneficial interest in trust			65,062	65,062	166,000
Funds designated for quasi-endowment	1,726,030			1,726,030	2,624,282
Appropriation of endowment for expenditure		(30,246)		(30,246)	(36,484)
Endowment Net Assets, End of Year	**$ 11,626,483**	**$ 676,019**	**$ 1,278,743**	**$ 13,581,245**	**$ 11,007,658**

Note 11 - Continued

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, 2018 and 2017, 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.

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 $26,000 and $875,000 for the years ended June 30, 2018 and 2017, respectively. The revenues earned under this agreement have been translated into U.S. dollars. Foreign currency translation adjustments resulted in gains of approximately $1,000 and losses of approximately ($2,000) for the years ended June 30, 2018 and 2017, respectively, and have been reported in the consolidated statement of activities and changes in net assets. There were no amounts due from Pacific Coast at June 30, 2018 and 2017. On September 19, 2017, the members and Board of Directors of Pacific Coast passed a resolution to prepare the Articles of Dissolution. The articles have been prepared, signed and sent to Canadian counsel for filing with Corporations Canada. The effective date of dissolution will be determined once Corporations Canada has processed the filing of the Articles of Dissolution. Pacific Coast has also requested the Canadian Revenue Agency revoke Pacific Coast’s registration as a charity, which was granted effective March 24, 2018.

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 $0 and $8,500 for the years ended June 30, 2018 and 2017, 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, 2018
(With Comparative Totals for 2017)

	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	2018	2017
Salaries, payroll taxes and benefits	$ 2,412,738	$ 1,416,470	$ 1,686,816	$ 5,516,024	$ 1,944,316	$ 1,435,320	$ 3,379,636	$ 8,895,660	$ 8,414,114
Program acquisition	2,567,576		1,304	2,568,880	913	260	1,173	2,570,053	2,614,009
Professional services	521,739	170,587	320,954	1,013,280	556,441	488,103	1,044,544	2,057,824	1,954,102
Printing and postage	37,567	615	382,029	420,211	831,783	11,630	843,413	1,263,624	1,515,021
Supplies, rental and maintenance of equipment	74,617	164,110	49,179	287,906	134,456	441,358	575,814	863,720	659,140
Depreciation and amortization	270,575	277,177	27,104	574,856	74,215	177,249	251,464	826,320	704,703
Advertising and promotion	63,248	5	88,141	151,394	661,899	10,431	672,330	823,724	930,821
Occupancy	252,269	138,957	30,939	422,165	120,093	67,905	187,998	610,163	540,157
Travel, conferences and training	143,591	13,449	33,459	190,499	116,873	50,002	166,875	357,374	277,811
Licenses, permits and fees	28,437	15	7,816	36,268	308,189	8,155	316,344	352,612	346,498
Insurance	506			506		224,808	224,808	225,314	205,373
Donated professional services, materials and facilities	95,656		29,469	125,125	29,269	8,325	37,594	162,719	58,977
Telephones	228	84,869	239	85,336	12,482	59,825	72,307	157,643	173,312
Miscellaneous	4,177	1,298	582	6,057	51,809	60,695	112,504	118,561	119,734
Membership and dues	860	1,037	930	2,827	4,542	63,050	67,592	70,419	66,216
Cost of goods sold					770		770	770	1,447
Total Expenses	**$ 6,473,784**	**$ 2,268,589**	**$ 2,658,961**	**$ 11,401,334**	**$ 4,848,050**	**$ 3,107,116**	**$ 7,955,166**	**$ 19,356,500**	**$ 18,581,435**

See independent auditor's report.

CASCADE PUBLIC MEDIA AND SUBSIDIARIES

Consolidating Schedule of Financial Position
For the Year Ended June 30, 2018

	CPM Organization holding Certificate of Exemption	Channel 9 Corporation	Consolidated Total
Assets			
Current Assets:			
Cash and cash equivalents	$ 3,605,736	$ 22,000	$ 3,627,736
Investments held for short-term purposes	7,157,717		7,157,717
Accounts, grants and contributions receivable, net	816,202	1,613	817,815
Inventories and other current assets	318,808		318,808
Due from (to Elimination Account)	1,797,576	(1,797,576)	
Total Current Assets	**13,696,039**	**(1,773,963)**	**11,922,076**
Long-term grants receivable	150,000		150,000
Investments held for long-term purposes	15,721,353		15,721,353
Beneficial interest in trusts	769,892		769,892
Land, property and equipment, net	4,002,910		4,002,910
Other assets	86,334		86,334
Total Assets	**$ 34,426,528**	**$ (1,773,963)**	**$ 32,652,565**
Liabilities and Net Assets			
Current Liabilities:			
Accounts payable and accrued expenses	$ 1,863,214	$ 2,197	$ 1,865,411
Deferred revenue	1,139,380		1,139,380
Total Current Liabilities	**3,002,594**	**2,197**	**3,004,791**
Gift annuities payable	465,107		465,107
Long-term portion of accrued expenses	168,391		168,391
Long-term portion of deferred revenue	1,749,772		1,749,772
Total Liabilities	**5,385,864**	**2,197**	**5,388,061**
Net Assets:			
Unrestricted	24,613,011	(1,776,160)	22,836,851
Temporarily restricted	2,409,819		2,409,819
Permanently restricted	2,017,834		2,017,834
Total Net Assets	**29,040,664**	**(1,776,160)**	**27,264,504**
Total Liabilities and Net Assets	**$ 34,426,528**	**$ (1,773,963)**	**$ 32,652,565**

See independent auditor's report.