

**KSPS Public Television
Audited Financial Statements
2017-18 Fiscal Year**

We are pleased that the auditors have issued an unmodified, 'clean' opinion. Our financial position is strong, with \$4.2 dollars in assets for every dollar of liability. The majority of our assets are unrestricted. You will notice on page 4, there is a negative change in unrestricted net assets of \$233,831 (as opposed to a surplus \$109,280 in 2017). This is due to a large increase in depreciation, a happy by-product of the successful replacement of many of our power sources, servers and transmitters, page 6. You'll also note on the same page that our net cash from operating activities improved greatly in the last fiscal year.

The KSPS Endowment, held under investment by Washington Trust Bank, reached over \$830,000 in the last fiscal year, page 12. We remain committed to a conservative management policy that will encourage growth of the fund, enabling it to serve the organization for years to come. We continue to seek donations to the Endowment, through traditional and estate gifts.

FRIENDS OF KSPS
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEARS ENDED AUGUST 31, 2018 AND 2017

CliftonLarsonAllen LLP



WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING



**FRIENDS OF KSPS
TABLE OF CONTENTS
YEARS ENDED AUGUST 31, 2018 AND 2017**

INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
STATEMENTS OF FINANCIAL POSITION	3
STATEMENTS OF ACTIVITIES	4
STATEMENTS OF CASH FLOWS	5
NOTES TO FINANCIAL STATEMENTS	7
SUPPLEMENTARY INFORMATION	
SCHEDULES OF FUNCTIONAL EXPENSES	19



INDEPENDENT AUDITORS' REPORT

Board of Directors
Friends of KSPS
Spokane, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of Friends of KSPS (a nonprofit organization), which comprise the statements of financial position as of August 31, 2018 and 2017, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

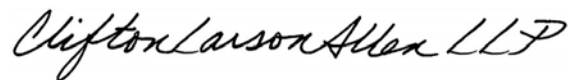
Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Friends of KSPS as of August 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of functional expenses 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 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 audits 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.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Spokane, Washington
November 27, 2018

**FRIENDS OF KSPS
STATEMENTS OF FINANCIAL POSITION
AUGUST 31, 2018 AND 2017**

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 978,878	\$ 1,005,744
Investments	425,738	413,718
Receivables:		
Grant Receivable	5,293	92,841
Program Underwriting	129,753	199,196
Other	800	1,512
Prepaid Expenses and Deposits	26,119	151,778
Total Current Assets	1,566,581	1,864,789
NONCURRENT ASSETS		
Investments Held in Friends of KSPS Endowment Fund	830,110	717,864
Beneficial Interest in Innovia Foundation	705,095	688,212
Beneficial Interest in Charitable Remainder Trust	29,921	30,425
Equipment, Net of Accumulated Depreciation	1,318,979	1,341,821
Total Noncurrent Assets	2,884,105	2,778,322
 Total Assets	 \$ 4,450,686	 \$ 4,643,111
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable	\$ 80,448	\$ 85,340
Accrued Compensation and Related Liabilities	3,024	4,353
Deferred Program Underwriting Revenue	132,441	125,708
Deferred Grant Revenue	-	108,602
Line of Credit Payable	150,000	-
Total Liabilities	365,913	324,003
NET ASSETS		
Unrestricted	4,054,852	4,288,683
Temporarily Restricted	29,921	30,425
Total Net Assets	4,084,773	4,319,108
 Total Liabilities and Net Assets	 \$ 4,450,686	 \$ 4,643,111

See accompanying Notes to Financial Statements.

**FRIENDS OF KSPS
STATEMENTS OF ACTIVITIES
YEARS ENDED AUGUST 31, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
SUPPORT, REVENUE, AND GAINS		
Memberships and Contributions	\$ 3,148,164	\$ 3,154,300
Community Service Grants from the Corporation for Public Broadcasting	1,009,815	1,053,851
Other Grants	196,558	499,623
Program Underwriting	303,069	391,196
Engineering Services	382,963	415,559
Production Services	120,240	23,260
Foundation, Bequest, and Trust Contributions	81,506	26,186
Investment Income	51,392	79,447
Change in Value of Beneficial Interest in Inland Northwest Community Foundation	41,505	66,971
Other	25,459	98,561
Total Support, Revenue, and Gains	<u>5,360,671</u>	<u>5,808,954</u>
EXPENSES		
Program Services:		
Programming and Production	2,140,175	2,279,810
Engineering Services	1,191,225	1,165,590
Program Information	274,534	256,386
Member Services	994,806	856,825
Total Program Services	<u>4,600,740</u>	<u>4,558,611</u>
Supporting Services:		
Fundraising	329,761	404,287
Program Underwriting	226,814	272,429
Management and General	437,187	464,347
Total Supporting Services	<u>993,762</u>	<u>1,141,063</u>
Total Expenses	<u>5,594,502</u>	<u>5,699,674</u>
CHANGE IN UNRESTRICTED NET ASSETS	(233,831)	109,280
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS		
Change in Value of Beneficial Interest in Charitable Remainder Trust	(504)	1,399
Total Change in Temporarily Restricted Net Assets	<u>(504)</u>	<u>1,399</u>
CHANGE IN NET ASSETS	(234,335)	110,679
Net Assets – Beginning of Year	<u>4,319,108</u>	<u>4,208,429</u>
NET ASSETS – END OF YEAR	<u>\$ 4,084,773</u>	<u>\$ 4,319,108</u>

See accompanying Notes to Financial Statements.

**FRIENDS OF KSPS
STATEMENTS OF CASH FLOWS
YEARS ENDED AUGUST 31, 2018 AND 2017**

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Memberships, Contributions, and Program Underwriting Collected	\$ 3,458,962	\$ 3,555,451
Community Service Grants from the Corporation for Public Broadcasting and Other Grants	1,293,921	1,460,633
Engineering Services	160,963	193,559
Productions Services	120,240	23,260
Investment Income	47,300	28,316
Cash Paid to and on Behalf of Employees	(2,243,657)	(2,121,776)
Cash Paid to Suppliers and Spokane Public Schools	(2,656,297)	(3,119,043)
Net Cash Provided by Operating Activities	181,432	20,400
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Equipment	(262,242)	(462,395)
Purchase of Investments	(397,050)	(317,780)
Sale of Investments	276,372	320,337
Distributions from Beneficial Interest in Innovia Foundation	24,622	22,569
Net Cash Used by Investing Activities	(358,298)	(437,269)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Line of Credit	841,380	680,954
Principal Payments on Line of Credit	(691,380)	(680,954)
Payment on Capital Lease Obligation	-	(80,475)
Net Cash Provided (Used) by Financing Activities	150,000	(80,475)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(26,866)	(497,344)
Cash and Cash Equivalents – Beginning of Year	1,005,744	1,503,088
CASH AND CASH EQUIVALENTS – END OF YEAR	\$ 978,878	\$ 1,005,744

See accompanying Notes to Financial Statements.

**FRIENDS OF KSPS
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED AUGUST 31, 2018 AND 2017**

	2018	2017
RECONCILIATION OF CHANGES IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Changes in Net Assets	\$ (234,335)	\$ 110,679
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	285,084	277,181
Change in Value of Charitable Remainder Trust	504	(1,399)
Change in Value of Beneficial Interest in Innovia Foundation	(41,505)	(66,971)
Gain on Investments, Net	(3,588)	(52,530)
(Increase) Decrease in Assets:		
Engineering Services Receivable	87,548	(92,841)
Program Underwriting Receivable	69,443	(63,890)
Other Receivables	712	(176)
Prepaid Expenses and Deposits	125,659	(122,383)
Increase (Decrease) in Liabilities:		
Accounts Payable	(4,892)	17,087
Accrued Compensation and Related Liabilities	(1,329)	3,249
Deferred Program Underwriting Revenue	6,733	(28,474)
Deferred Grant Revenue	(108,602)	40,868
Net Cash Provided by Operating Activities	\$ 181,432	\$ 20,400
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES		
In-Kind Contributions	\$ 290,026	\$ 283,721

See accompanying Notes to Financial Statements.

**FRIENDS OF KSPS
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2018 AND 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Friends of KSPS (the Organization) is a Washington nonprofit corporation which supports the educational and cultural needs of the residents of eastern Washington, northern Idaho, western Montana, and parts of western Canada through public television broadcasts on KSPS-TV. KSPS-TV has operated continuously as a public television station since 1967.

On August 31, 2013, the Federal Communications Commission's (FCC) broadcast license was transferred from Spokane Public Schools (SPS) to the Organization, making the Organization the owner and operator of KSPS-TV.

The Organization provides quality educational and cultural programming through 24-hour program service distributed by transmitter, cable, and satellite to viewers in eastern Washington, northern Idaho, western Montana, and parts of western Canada. This service reaches educational and public service institutions, childcare providers, and others and provides them with educational tools and outreach programs that expand learning beyond the programs and the classroom. Each week, the Organization broadcasts educational, noncommercial, nonviolent programs for children. The Organization also develops and distributes online content. The Organization is a member of the Public Broadcasting Service (PBS).

Financial Statement Presentation

The financial statements of the Organization have been presented on the accrual basis of accounting. The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. Unrestricted net assets included resources that are not temporarily or permanently restricted by the donor and are available for operations of the Organization without limitation. Board-designated amounts consist of the Organization's board-designated endowment fund, which is comprised of cash and investments held to provide support to the Organization in future periods. Temporarily restricted net assets are those whose use by the Organization has been limited by donors to a specific time period or purpose. Permanently restricted net assets are those that have been restricted by donors to be maintained in perpetuity. The Organization has no permanently restricted net assets.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**FRIENDS OF KSPS
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2018 AND 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Organization considers all highly liquid investments with original maturity dates of three months or less to be cash equivalents, with the exception of funds included in the Organization's investment portfolio.

Investments

The Organization accounts for investments in accordance with the provisions of *Accounting for Certain Investments Held by Not-for-Profit Organizations*. Under *Accounting for Certain Investments Held by Not-for-Profit Organizations*, investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statements of financial position. Unrealized gains and losses are included in the changes in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

The Organization has adopted the Fair Value Measurement standard under which fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the measurement date. The techniques used to measure fair value are prioritized in accordance with the tri-level fair value hierarchy established by the standard. See Note 6 for expanded disclosure.

Prepaid Expenses

Prepaid expenses consist primarily of prepaid PBS dues.

Equipment

The Organization's capital assets are reported at cost. Donated capital assets are reported at their estimated fair value at the time of their donation. Equipment is capitalized when its acquisition cost or fair value at the date of donation is greater than \$5,000. All capital assets are depreciated using the straight-line method of depreciation over estimated useful lives as follows:

Broadcast Equipment	4 to 20 Years
Transmitter Equipment	5 to 20 Years
Digital Equipment	3 to 7 Years
Office Equipment	3 to 7 Years
Vehicles	5 Years

Deferred Revenue

Deferred revenue consists of unearned revenue from grants and underwriting.

**FRIENDS OF KSPS
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2018 AND 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. The Organization had no temporarily or permanently restricted contributions in 2018 or 2017.

Contributions are recorded as income at the time the funds are received. The Organization does not record pledges as a receivable, since a written pledge is not obtained from the donor.

Contributions of services and other noncash support are recorded as both revenue and support and expense at the estimated fair value of the services and other support on the date of receipt when such services and support create or enhance nonfinancial assets or require specialized skills that typically need to be purchased if not provided by donation.

Community Service Grants from the Corporation for Public Broadcasting

As a member of the Corporation for Public Broadcasting (CPB), the Organization receives funding from the CPB each year. This revenue is recognized in the financial statements during the grant period.

Program Underwriting Revenue

Program underwriting revenue is recognized in the financial statements based on the terms of the underwriting contract. Program underwriting receivables represent contracts to underwrite programming that either have been billed but not yet collected or have not yet been billed. Management believes program-underwriting receivables are fully collectible. Uncollectible contracts are written off in the period they become uncollectible.

Production Revenue

Production revenue represents amounts earned by the Organization for production-related services performed. These revenues are recognized in the financial statements based on the terms of each contract.

Grant Revenue

Grant revenue is recognized when earned. Management believes grant receivable amounts are fully collectible.

Functional Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**FRIENDS OF KSPS
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2018 AND 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign Currency Transactions

The Organization has a bank account in Canada to service Canadian members and vendors. Revenues and expenses are translated at average rates of exchange prevailing during the year.

Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC). Accordingly, no provision for income taxes is necessary. The Organization evaluates uncertain tax positions whereby the effect of the uncertainty would be recorded if the outcome was considered probable and reasonably estimable. As of August 31, 2018 and 2017, the Organization had no uncertain tax positions.

New Accounting Pronouncement Effective in Future Accounting Periods

Nonprofit Financial Statements

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14 *Not-For-Profit Entities (Topic 958), Presentation of Financial Statements of Not-for-Profit Entities*. This standard was issued to improve the information presented in financial statements and notes about a nonprofit entity's liquidity, financial performance, and cash flows. ASU 2016-14 is effective for fiscal year beginning after December 15, 2017, with early adoption permitted. Management will be evaluating the effects of this new standard.

Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board (FASB) issued amended guidance to clarify the principles for recognizing revenue from contracts with customers. The guidance requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The guidance also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Additionally, qualitative and quantitative disclosures are required regarding customer contracts, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. The guidance will initially be applied retrospectively using one of two methods. The standard will be effective for the entity for annual periods beginning after December 15, 2018. Management is evaluating the impact of the amended revenue recognition guidance on the entity's financial statements.

**FRIENDS OF KSPS
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2018 AND 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which is a comprehensive lease accounting standard that requires entities that lease assets (lessees) to recognize the assets and related liabilities for the rights and obligations created by the leases on the balance sheet for leases with terms exceeding 12 months. The lessee in a lease will be required to initially measure the right-of-use asset and the lease liability at the present value of the remaining lease payments, as well as capitalize initial direct costs as part of the right-of-use asset. The standard will be effective for the entity for annual periods beginning after December 15, 2019; however, early application is permitted. Management is currently evaluating the impact this guidance will have on its financial statements.

Subsequent Events

The Organization has evaluated subsequent events through November 27, 2018, the date on which the financial statements were available to be issued.

NOTE 2 INVESTMENTS

Investments consisted of the following:

	<u>2018</u>	<u>2017</u>
Mutual Funds:		
Cash	\$ 11,404	\$ -
Money Market	76,556	86,351
Equities	436,432	374,505
Fixed Income	461,828	430,380
Alternative	269,628	240,346
Total	<u>\$ 1,255,848</u>	<u>\$ 1,131,582</u>

Investments are reported in the statements of financial position as follows:

	<u>2018</u>	<u>2017</u>
Investments	\$ 425,738	\$ 413,718
Investments Held in Friends of KSPS Endowment Fund	830,110	717,864
Total	<u>\$ 1,255,848</u>	<u>\$ 1,131,582</u>

The following is a summary of investment income (loss) recognized during the years:

	<u>2018</u>	<u>2017</u>
Gains and Losses, Net	\$ 3,588	\$ 52,530
Interest and Dividends Earned	47,804	26,917
Total	<u>\$ 51,392</u>	<u>\$ 79,447</u>

**FRIENDS OF KSPS
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2018 AND 2017**

NOTE 3 FRIENDS OF KSPS ENDOWMENT FUND

The Organization transferred funds to the Friends of KSPS Endowment Fund (the Endowment), whose assets are held by Washington Trust Bank (WTB). The Organization has delegated management and investment authority to WTB.

The Endowment consists solely of unrestricted bequests and unanticipated gifts in excess of \$75,000. An option exists to allow up to 10% of the funds to be allotted to general operations of the Organization at the request of the general manager and confirmed by a vote by the board of directors.

	Board Designated <u>Unrestricted</u>
Endowment Net Assets, August 31, 2016	\$ 615,279
Investment Return:	
Investment Income, Net	11,646
Net Gain on Investments:	
Realized Loss	13,326
Unrealized Gain	22,595
Deposits	121,799
Transfer to Operating	<u>(66,781)</u>
Endowment Net Assets, August 31, 2017	717,864
Investment Return:	
Investment Income, Net	23,578
Net Gain (Loss) on Investments:	
Realized Gain	6,516
Unrealized Loss	1,282
Deposits	115,831
Transfer to Operating	<u>(34,961)</u>
Endowment Net Assets, August 31, 2018	<u>\$ 830,110</u>

Return Objectives and Risk Parameters

The purpose of the endowment fund is to support the Organization and its mission over the long-term. Accordingly, the primary investments will preserve the real purchasing power of the principal and provide a stable source of perpetual financial support to its programs in accordance with established spending policies.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate of return objective, the Endowment will rely on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and from current yield (interest and dividends). The general policy shall be to diversify investments amount both growth and fixed income strategies to provide a balance that will enhance total return while avoiding undue risk concentration in any single asset class or investment category. Endowment assets are invested based on the following asset allocation targets: 60% growth equity securities with a 15% limit on international equity securities, 36% fixed income, and 4% cash and cash equivalents.

**FRIENDS OF KSPS
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2018 AND 2017**

NOTE 3 FRIENDS OF KSPS ENDOWMENT FUND (CONTINUED)

Spending Policy and How the Investment Objectives Relate to Spending Policy

Endowment funds have a spending limit of 4% of the 13-quarter trailing average of the Organization's total assets to operations, with the consideration that the rate will not exceed the total return from investments.

NOTE 4 INNOVIA FOUNDATION

The Organization recognizes, as its assets, funds held by the Innovia Foundation Endowment Fund (the Fund) that were contributed directly to the Fund by the Organization. Innovia Foundation has variance power and is the legal owner of the Fund. The Organization is the beneficiary of the Fund and receives distributions of investment earnings from the Fund, subject to the spending policies of Innovia Foundation.

NOTE 5 BENEFICIAL INTEREST IN CHARITABLE REMAINDER TRUST

The Organization has established, through its deferred giving programs, a charitable remainder trust of which the Organization is the remainderman. The trust, formulated through written legal trust documents, are separate entities for reporting to the Internal Revenue Service. In accordance with trust documents, the trust's property and all receipts of every kind shall be managed and invested by the trustee as a single fund from which the trustee shall pay a portion of the investment earnings to the beneficiaries in each taxable year of the trust. A beneficial interest is presented for the trust. The beneficial interest is computed based on the fair value of the Organization's interest in the trust assets. The beneficial interest in charitable remainder trust is temporarily restricted net assets.

NOTE 6 FAIR VALUE HIERARCHY

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

Level 1 – Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury and federal agency securities and federal agency mortgage-backed securities, which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 – Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third-party pricing services for identical or similar assets or liabilities.

**FRIENDS OF KSPS
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2018 AND 2017**

NOTE 6 FAIR VALUE HIERARCHY (CONTINUED)

Level 3 – Valuations for assets and liabilities that are derived from other valuation methodologies, including option-pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker-traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Organization’s assessment of the significance of a particular input to fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

Investments are stated at fair value, which is determined by using market quotations and other information available at the valuation date.

The fair value of the beneficial interest in charitable remainder trusts and the beneficial interest in Innovia Foundation are based on quoted market values for the underlying marketable investments.

The fair value of the guaranteed investment contract held by a Canadian bank is determined by its contract value multiplied by the exchange rate in effect at year-end.

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

The following tables disclose, by level within the fair value hierarchy, the Organization’s assets measured and reported on the statements of financial position, at fair value on a recurring basis:

	2018			
	Level 1	Level 2	Level 3	Total
Mutual Funds:				
Cash	\$ 11,404	\$ -	\$ -	\$ 11,404
Money Market	76,556	-	-	76,556
Equities	436,432	-	-	436,432
Fixed Income	461,828	-	-	461,828
Alternative	269,628	-	-	269,628
Beneficial Interest in Innovia Foundation	-	-	705,095	705,095
Beneficial Interest in Charitable Remainder Trust	-	-	29,921	29,921
Total	<u>\$ 1,255,848</u>	<u>\$ -</u>	<u>\$ 735,016</u>	<u>\$ 1,990,864</u>

**FRIENDS OF KSPS
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2018 AND 2017**

NOTE 6 FAIR VALUE HIERARCHY (CONTINUED)

	2017			
	Level 1	Level 2	Level 3	Total
Mutual Funds:				
Money Market	\$ 86,351	\$ -	\$ -	\$ 86,351
Equities	374,505	-	-	374,505
Fixed Income	430,380	-	-	430,380
Alternative	240,346	-	-	240,346
Beneficial Interest in Innovia Foundation	-	-	688,212	688,212
Beneficial Interest in Charitable Remainder Trust	-	-	30,425	30,425
Total	<u>\$ 1,131,582</u>	<u>\$ -</u>	<u>\$ 718,637</u>	<u>\$ 1,850,219</u>

The following tables set forth a summary of changes in the fair value of the Organization's Level 3 assets:

	Balance		Investment				Balance	
	August 31, 2017	Contributions	Income (Loss)	Realized Gain (loss)	Unrealized Gain (loss)	Investment Fees	Distributions	August 31, 2018
Beneficial Interest in Innovia Foundation	\$ 688,212	\$ -	\$ 17,235	\$ 23,443	\$ 9,561	\$ (8,734)	\$ (24,622)	\$ 705,095
Beneficial Interest in Charitable Remainder Trust	30,425	-	(504)	-	-	-	-	29,921
Total	<u>\$ 718,637</u>	<u>\$ -</u>	<u>\$ 16,731</u>	<u>\$ 23,443</u>	<u>\$ 9,561</u>	<u>\$ (8,734)</u>	<u>\$ (24,622)</u>	<u>\$ 735,016</u>

	Balance		Investment				Balance	
	August 31, 2016	Contributions	Income (Loss)	Realized Gain (loss)	Unrealized Gain (loss)	Investment Fees	Distributions	August 31, 2017
Beneficial Interest in Innovia Foundation	\$ 643,810	\$ -	\$ 21,997	\$ 9,098	\$ 44,069	\$ (8,193)	\$ (22,569)	\$ 688,212
Beneficial Interest in Charitable Remainder Trust	29,026	-	1,399	-	-	-	-	30,425
Total	<u>\$ 672,836</u>	<u>\$ -</u>	<u>\$ 23,396</u>	<u>\$ 9,098</u>	<u>\$ 44,069</u>	<u>\$ (8,193)</u>	<u>\$ (22,569)</u>	<u>\$ 718,637</u>

**FRIENDS OF KSPS
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2018 AND 2017**

NOTE 7 EQUIPMENT

A summary of equipment is as follows:

	2018	2017
Broadcast Equipment	\$ 1,858,489	\$ 1,764,473
Transmitter Equipment	665,222	626,360
Digital Equipment	115,287	115,287
Office Equipment	141,624	130,204
Vehicles	5,359	5,359
Construction in Progress	116,948	-
Total	2,902,929	2,641,683
Accumulated Depreciation	(1,583,950)	(1,299,862)
Equipment, Net	\$ 1,318,979	\$ 1,341,821

Construction in progress is related to the relocation to new broadcasting frequencies as required by the government's recent spectrum incentive auction. Estimated costs to complete the project are \$58,000 and the estimated completion date is December 2018.

NOTE 8 CAPITAL LEASE OBLIGATION

The Organization entered into a capital lease obligation for production equipment during fiscal year 2016. The agreement required a down payment of approximately \$13,000 and 22 monthly payments of approximately \$6,700.

At August 31, 2018 and 2017, the capitalized cost and accumulated depreciation of the capital lease obligation was \$161,141; \$32,228 and \$161,141; \$21,485, respectively.

NOTE 9 BUILDING LEASE

Effective August 31, 2013, the Organization entered into a five-year lease agreement with Spokane Public Schools (SPS) in which the Organization will remain in its current building space in exchange for providing SPS with \$222,000 worth of production and other in-kind services each year. If the Organization fails to provide the agreed-upon services, annual cash payments in the amount of \$222,000 will be required. All required engineering services were provided and, as such, no cash payments were made in 2018 or 2017. The in-kind engineering revenue and occupancy expense of \$222,000 was recorded in the 2018 and 2017 financial statements. Management is in the process of extending the lease.

FRIENDS OF KSPS
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2018 AND 2017

NOTE 10 LINE OF CREDIT

On December 12, 2013, the Organization entered into a revolving line of credit with Washington Trust Bank (WTB), which matures on February 8, 2019. The amount available to the Organization is \$750,000. The line of credit is secured by the Organization's WTB Wealth Management and money market accounts which are held by WTB. At August 31, 2018 and 2017, the outstanding balance was \$150,000 and \$-0-, respectively.

NOTE 11 OPERATING LEASES

The Organization's leases consisted of postal equipment and software. Lease expense during the years ended August 31, 2018 and 2017 was approximately \$25,000 and \$65,000, respectively.

Future obligations under terms of the Organization's operating leases are as follows:

<u>Year Ending August 31,</u>	<u>Amount</u>
2019	\$ 4,668
2020	1,167
Total	<u>\$ 5,835</u>

NOTE 12 CONCENTRATIONS AND CREDIT RISKS

The Organization maintains its cash balance at a local bank. Accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At various times during the year, the Organization's cash on deposit in banks exceeded the limit insured by the FDIC.

Additionally, at August 31, 2018 and 2017, the Organization had \$101,429 and \$115,452, respectively, in the Royal Bank of Canada. Accounts are insured by the Canadian Deposit Insurance Corporation (CDIC) up to \$100,000. These funds are available for transmittal to the United States as needed.

The Organization invests in various mutual funds which invest in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain types of investments, it is at least reasonably possible that changes could materially affect the Organization's account balances and the amounts reported in the statements of financial position.

**FRIENDS OF KSPS
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2018 AND 2017**

NOTE 13 RETIREMENT PLAN

The Organization established a 401(k) defined contribution retirement plan, which covers substantially all of its employees who meet certain eligibility requirements. The Organization contributes to the plan at its discretion. For the years ended August 31, 2018 and 2017, the Organization contributed 3% of each participant's salary, subject to annual IRC limits. Contributions to the plan totaled approximately \$54,000 and \$51,000 for the years ended August 31, 2018 and 2017, respectively.

NOTE 14 MEMBERSHIP AND CONTRIBUTIONS

The Organization collects memberships and contributions from the United States and Canada. Memberships and contributions are as follows:

	<u>2018</u>	<u>2017</u>
U.S. Contributions	\$ 2,110,862	\$ 1,988,455
Canadian Contributions	1,369,792	1,591,836
Canadian Exchange Discount	(332,490)	(425,991)
Total	<u>\$ 3,148,164</u>	<u>\$ 3,154,300</u>

FRIENDS OF KSPS
SCHEDULE OF FUNCTIONAL EXPENSES
YEAR ENDED AUGUST 31, 2018
(SEE INDEPENDENT AUDITORS' REPORT)

	Program Services					Support Services				
	Programming and Production	Engineering Services	Program Information	Member Services	Total Program Services	Fundraising	Program Underwriting	Management and General	Total Support Services	Total
Salaries	\$ 413,019	\$ 499,858	\$ 57,317	\$ 452,227	\$ 1,422,421	\$ 8,578	\$ 101,191	\$ 210,034	\$ 319,803	\$ 1,742,224
Employee Benefits	76,098	106,747	13,076	119,330	315,251	562	6,624	13,750	20,936	336,187
Payroll Taxes	38,859	47,029	5,393	42,548	133,829	807	9,520	19,761	30,088	163,917
Dues, Licenses, and Permits	810,757	-	-	-	810,757	-	-	-	-	810,757
Printing, Postage, and Supplies	4,070	20,039	156,339	263,425	443,873	186,099	-	8,207	194,306	638,179
Local Program Production	39,111	-	-	-	39,111	-	-	-	-	39,111
Telemarketing	-	-	-	-	-	89,711	-	-	89,711	89,711
Leases and Maintenance										
Agreements	-	29,148	-	-	29,148	-	-	63,447	63,447	92,595
Depreciation	285,084	-	-	-	285,084	-	-	-	-	285,084
Special Events	-	-	-	-	-	-	-	3,896	3,896	3,896
Building Lease	52,628	63,694	7,304	67,682	191,308	1,093	2,836	26,763	30,692	222,000
Other	420,549	424,710	35,105	49,594	929,958	42,911	106,643	91,329	240,883	1,170,841
Total Expenses	\$ 2,140,175	\$ 1,191,225	\$ 274,534	\$ 994,806	\$ 4,600,740	\$ 329,761	\$ 226,814	\$ 437,187	\$ 993,762	\$ 5,594,502

**FRIENDS OF KSPS
SCHEDULE OF FUNCTIONAL EXPENSES
YEAR ENDED AUGUST 31, 2017
(SEE INDEPENDENT AUDITORS' REPORT)**

	Program Services					Support Services				
	Programming and Production	Engineering Services	Program Information	Member Services	Total Program Services	Fundraising	Program Underwriting	Management and General	Total Support Services	Total
Salaries	\$ 393,081	\$ 500,336	\$ 55,268	\$ 385,942	\$ 1,334,627	\$ 10,510	\$ 106,125	\$ 207,117	\$ 323,752	\$ 1,658,379
Employee Benefits	77,131	109,293	12,164	92,977	291,565	742	5,591	13,117	19,450	311,015
Payroll Taxes	37,994	48,361	5,342	37,304	129,001	1,016	7,655	17,959	26,630	155,631
Dues, Licenses, and Permits	859,946	-	-	-	859,946	-	-	-	-	859,946
Printing, Postage, and Supplies	10,740	27,068	164,145	260,067	462,020	268,641	-	13,952	282,593	744,613
Local Program Production	44,090	-	-	-	44,090	-	-	-	-	44,090
Telemarketing	-	-	-	-	-	67,441	-	-	67,441	67,441
Leases and Maintenance										
Agreements	-	30,737	-	-	30,737	-	-	100,298	100,298	131,035
Depreciation	277,181	-	-	-	277,181	-	-	-	-	277,181
Special Events	-	-	-	-	-	-	-	1,481	1,481	1,481
Building Lease	56,738	70,377	7,001	48,272	182,388	1,224	11,828	26,560	39,612	222,000
Other	522,909	379,418	12,466	32,263	947,056	54,713	141,230	83,863	279,806	1,226,862
Total Expenses	\$ 2,279,810	\$ 1,165,590	\$ 256,386	\$ 856,825	\$ 4,558,611	\$ 404,287	\$ 272,429	\$ 464,347	\$ 1,141,063	\$ 5,699,674



Investment advisory services are offered through CliftonLarsonAllen
Wealth Advisors, LLC, an SEC-registered investment advisor.