

**FRIENDS OF KEXP  
dba KEXP-FM**

**FINANCIAL STATEMENTS WITH  
INDEPENDENT AUDITORS' REPORT**

**DECEMBER 31, 2016 AND 2015**



## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Friends of KEXP  
Seattle, Washington

We have audited the accompanying financial statements of Friends of KEXP dba KEXP-FM (a nonprofit organization), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities, functional expenses, 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 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 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 KEXP-FM as of December 31, 2016 and 2015, 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.

*Jones & Associates LLC, CPAs*

Jones & Associates, LLC CPAs  
May 22, 2017

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**FRIENDS OF KEXP dba KEXP-FM**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2016 AND 2015**

	2016	2015
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,785,994	\$ 1,382,938
Cash restricted for capital campaign	2,111,120	309,045
Certificates of deposit	255,085	254,294
Business support receivables, net	416,370	376,323
Pledges receivable, net	3,995,083	7,102,522
Prepaid expenses and inventory	78,448	74,195
Property and equipment, net	9,528,585	9,147,096
Intangible assets	3,885,487	3,885,487
	\$ 22,056,172	\$ 22,531,900
 <b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 761,909	\$ 997,482
Payroll liabilities	613,862	595,413
Line of credit	2,500,629	3,783,659
Payable to University of Washington	3,525,905	3,855,134
	7,402,305	9,231,688
 <b>NET ASSETS</b>		
Unrestricted	11,299,463	10,740,771
Temporarily restricted	3,354,404	2,559,441
	14,653,867	13,300,212
	\$ 22,056,172	\$ 22,531,900

**FRIENDS OF KEXP dba KEXP-FM**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED DECEMBER 31, 2016**

	Unrestricted	Temporarily Restricted	Total
<b>OPERATING SUPPORT AND REVENUE</b>			
Contributions	\$ 8,894,410	\$ 985,172	\$ 9,879,582
Advertising	277,871	-	277,871
Retail sales	29,261	-	29,261
Other revenue	20,222	-	20,222
	<u>9,221,764</u>	<u>985,172</u>	<u>10,206,936</u>
Net assets released from restrictions			
Satisfaction of program requirements	255,654	(255,654)	-
Passage of time requirements	258,974	(258,974)	-
Total operating support and revenues	<u>9,736,392</u>	<u>470,544</u>	<u>10,206,936</u>
<b>OPERATING EXPENSES</b>			
Program services	6,132,015	-	6,132,015
Management and general	876,226	-	876,226
Fundraising	2,603,912	-	2,603,912
	<u>9,612,153</u>	<u>-</u>	<u>9,612,153</u>
Change in net assets before non-operating activity	124,239	470,544	594,783
<b>NON-OPERATING ACTIVITY</b>			
Capital campaign contributions	-	1,616,547	1,616,547
Capital campaign expenses	(857,675)	-	(857,675)
Satisfaction of capital campaign restrictions	1,292,128	(1,292,128)	-
Change in net assets	558,692	794,963	1,353,655
<b>NET ASSETS</b>			
Beginning of the year	10,740,771	2,559,441	13,300,212
End of the year	<u>\$ 11,299,463</u>	<u>\$ 3,354,404</u>	<u>\$ 14,653,867</u>

**FRIENDS OF KEXP dba KEXP-FM  
STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2015**

	Unrestricted	Temporarily Restricted	Total
<b>OPERATING SUPPORT AND REVENUE</b>			
Contributions	\$ 6,606,376	\$ 1,362,372	\$ 7,968,748
Advertising	323,034	-	323,034
Retail sales	11,231	-	11,231
Other revenue	1,356	-	1,356
	<u>6,941,997</u>	<u>1,362,372</u>	<u>8,304,369</u>
Net assets released from restrictions			
Satisfaction of program requirements	270,334	(270,334)	-
Passage of time requirements	1,435,164	(1,435,164)	-
Total operating support and revenues	<u>8,647,495</u>	<u>(343,126)</u>	<u>8,304,369</u>
<b>OPERATING EXPENSES</b>			
Program services	4,522,748	-	4,522,748
Management and general	603,380	-	603,380
Fundraising	2,543,541	-	2,543,541
	<u>7,669,669</u>	<u>-</u>	<u>7,669,669</u>
Change in net assets before non-operating activity	977,826	(343,126)	634,700
<b>NON-OPERATING ACTIVITY</b>			
Capital campaign contributions	-	5,723,950	5,723,950
Capital campaign expenses	(2,207,216)	-	(2,207,216)
Satisfaction of capital campaign restrictions	9,053,572	(9,053,572)	-
Change in net assets	7,824,182	(3,672,748)	4,151,434
<b>NET ASSETS</b>			
Beginning of the year	2,916,589	6,232,189	9,148,778
End of the year	<u>\$ 10,740,771</u>	<u>\$ 2,559,441</u>	<u>\$ 13,300,212</u>

**FRIENDS OF KEXP dba KEXP-FM  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED DECEMBER 31, 2016**

	Program Services	Support Services			Total
		Management and General	Fund- raising	Total	
Salaries	\$ 2,488,948	\$ 451,352	\$ 1,135,571	\$ 1,586,923	\$ 4,075,871
Employee benefits	444,576	87,222	237,008	324,230	768,806
Payroll taxes	205,651	37,660	93,722	131,382	337,033
Total payroll and related	3,139,175	576,234	1,466,301	2,042,535	5,181,710
Legal	25,554	2,883	4,132	7,015	32,569
Accounting	-	25,883	-	25,883	25,883
Fundraising and other	474,197	19,434	934,048	953,482	1,427,679
Total fees for service	499,751	48,200	938,180	986,380	1,486,131
Depreciation and amortization	870,711	58,437	164,688	223,125	1,093,836
Information technology	627,340	50,383	82,796	133,179	760,519
Occupancy	558,824	86,611	234,330	320,941	879,765
Office	67,327	16,222	209,117	225,339	292,666
Performances	145,086	-	-	-	145,086
Printing and design	6,653	339	102,495	102,834	109,487
Fundraising supplies	-	-	107,636	107,636	107,636
Human resource administration	35,457	30,530	14,887	45,417	80,874
Premiums	-	-	76,182	76,182	76,182
Dues and subscriptions	61,112	409	3,414	3,823	64,935
Research	54,681	4,011	3,202	7,213	61,894
Insurance	23,712	3,295	9,283	12,578	36,290
Vehicle donation fees	-	-	35,526	35,526	35,526
Travel	21,164	1,118	9,271	10,389	31,553
Advertising and promotion	10,487	1	166	167	10,654
Collections and acquisitions	7,830	-	-	-	7,830
Meetings	2,705	436	4,113	4,549	7,254
	6,132,015	876,226	3,461,587	4,337,813	10,469,828
Less capital campaign expenses	-	-	(857,675)	(857,675)	(857,675)
	<u>\$6,132,015</u>	<u>\$ 876,226</u>	<u>\$2,603,912</u>	<u>\$3,480,138</u>	<u>\$ 9,612,153</u>

**FRIENDS OF KEXP dba KEXP-FM  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED DECEMBER 31, 2015**

	Program Services	Support Services			Total
		Management and General	Fund- raising	Total	
Salaries	\$ 2,387,324	\$ 368,543	\$ 1,173,815	\$ 1,542,358	\$ 3,929,682
Employee benefits	387,757	72,406	234,465	306,871	694,628
Payroll taxes	183,859	27,587	100,663	128,250	312,109
Total payroll and related	<u>2,958,940</u>	<u>468,536</u>	<u>1,508,943</u>	<u>1,977,479</u>	<u>4,936,419</u>
Legal	36,621	6,614	6,056	12,670	49,291
Accounting	926	20,132	-	20,132	21,058
Fundraising and other	430,291	22,685	1,107,891	1,130,576	1,560,867
Total fees for service	<u>467,838</u>	<u>49,431</u>	<u>1,113,947</u>	<u>1,163,378</u>	<u>1,631,216</u>
Information technology	1,179,688	41,922	60,849	102,771	1,282,459
Depreciation and amortization	324,506	6,253	13,515	19,768	344,274
Office	61,135	12,442	247,010	259,452	320,587
Occupancy	521,825	71,712	157,951	229,663	751,488
Performances	140,314	-	-	-	140,314
Premiums	-	-	71,116	71,116	71,116
Human resource administration	35,490	28,991	12,269	41,260	76,750
Travel	25,210	3,070	22,490	25,560	50,770
Dues and subscriptions	39,996	260	2,518	2,778	42,774
Fundraising supplies	-	-	59,376	59,376	59,376
Research	48,022	942	-	942	48,964
Printing and design	878	58	16,951	17,009	17,887
Meetings	1,254	955	2,045	3,000	4,254
Vehicle donation fees	-	-	24,906	24,906	24,906
Insurance	19,313	2,513	5,201	7,714	27,027
Advertising and promotion	39,913	2	2,422	2,424	42,337
Collections and acquisitions	3,967	-	-	-	3,967
	<u>5,868,289</u>	<u>687,087</u>	<u>3,321,509</u>	<u>4,008,596</u>	<u>9,876,885</u>
Less capital campaign expenses	<u>(1,345,541)</u>	<u>(83,707)</u>	<u>(777,968)</u>	<u>(861,675)</u>	<u>(2,207,216)</u>
	<u>\$4,522,748</u>	<u>\$ 603,380</u>	<u>\$2,543,541</u>	<u>\$3,146,921</u>	<u>\$ 7,669,669</u>

**FRIENDS OF KEXP dba KEXP-FM**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2016 AND 2015**

	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from contributions	\$ 6,926,466	\$ 5,661,578
Cash received from other revenue	327,354	335,621
Cash paid for interest	(82,188)	(3,659)
Cash paid to employees and suppliers	(6,175,492)	(4,748,596)
	996,140	1,244,944
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of certificates of deposit	(791)	(788)
Purchase of property and equipment	(1,343,669)	(3,753,986)
	(1,344,460)	(3,754,774)
 <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayment of payable to University of Washington	(25,000)	(25,001)
Repayment of line of credit	(1,285,000)	-
Proceeds from contributions less costs for capital campaign	3,861,481	651,805
	2,551,481	626,804
 <b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	2,203,161	(1,883,026)
 <b>CASH AND CASH EQUIVALENTS</b>		
Beginning of the year	1,691,983	3,575,009
End of the year	\$ 3,895,144	\$ 1,691,983
 <b>SUPPLEMENTAL DISCLOSURE - NONCASH</b>		
Acquisition of property and equipment with accounts payable	\$ 419,247	\$ 399,085
Acquisition of property and equipment with line of credit	\$ -	\$ 3,780,000



**FRIENDS OF KEXP dba KEXP-FM**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

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**Note 1 – Nature of Activities and Summary of Significant Accounting Policies**

**Nature of Activities** – Friends of KEXP, dba KEXP-FM (KEXP), is a not-for-profit corporation organized in 2001 for the purpose of operating a radio station, and currently operates as an arts organization, including the station. KEXP'S mission is to enrich people's lives by championing music and discovery. Receipts are derived primarily from contributions from the organization's general audience.

**Related Entity** – KEXP is an affiliate of the University of Washington (the University), a public university in Washington State. The University has neither majority ownership nor majority voting interest. Therefore, KEXP's financial information is not consolidated with the University.

Until 2014, the University held the Federal Communications Commission license (FCC License) for the broadcast frequency of 90.3 FM, which KEXP operated on behalf of the University through a long-term management agreement (the Management Agreement). In 2014, KEXP was assigned the rights to the FCC License and other intangible assets from the University (see Note 10).

In 2014, at the time the FCC license was transferred, the Management Agreement was replaced with a new cooperation agreement (the Cooperation Agreement) to reflect changes in the relationship between the University and KEXP. The Cooperation Agreement reflects the affiliation between KEXP and the University, including that KEXP's individual donor revenue is counted towards the University's fundraising goals, and that one member of KEXP's Board of Directors is an officer of the University. In addition, the University provides support for KEXP's operations, including engineering staff and fundraising staff and services. Finally, as part of the agreement, KEXP provides on-air underwriting and online advertising services for the University. In May 2017, the Management Agreement was amended, clarifying the affiliate status, simplifying technology support and increasing the on-air announcements over the next two-year period.

**New Location Capital Campaign** – KEXP is conducting a multi-year capital campaign (the Capital Campaign) for building a new home at the Seattle Center. The new location offers flexible indoor and outdoor spaces to accommodate more performances and events with more public participation. The new location includes spaces for musicians to recharge, create and connect and up-to-date equipment that support the best possible programming.

**Basis of Accounting and Presentation** – The financial statements of KEXP have been prepared on the accrual basis of accounting and report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted – Net assets which are free of donor-imposed restrictions; all revenues, expenses, gains and losses that are not changes in permanently or temporarily restricted net assets.

**FRIENDS OF KEXP dba KEXP-FM  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015**

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**Note 1 – Nature of Activities and Summary of Significant Accounting Policies (Continued)**

Temporarily restricted – Net assets whose use by KEXP is limited by donor-imposed stipulations that either expire by passage of time or that can be fulfilled by actions of the Organization pursuant to those stipulations. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction.

Restricted support and revenue received during the year for which restrictions have been satisfied in the same year are recorded as unrestricted support and revenue.

Permanently restricted – Net assets whose use by KEXP is limited by donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by actions of KEXP. There were no permanently restricted net assets at December 31, 2016 and 2015.

**Cash and Cash Equivalents** – For purposes of the statements of cash flows, KEXP considers all checking and savings accounts and unrestricted highly liquid investments with an initial maturity of three months or less to be cash and cash equivalents. At times, cash and cash equivalents may exceed federally insured limits. KEXP has not experienced any losses related to this concentration.

KEXP has collected cash from donors for the Capital Campaign. Cash collected and unspent is presented as cash restricted for Capital Campaign on the statement of financial position.

**Certificates of Deposit** – At December 31, 2016 and 2015, KEXP held several certificates of deposit which are carried at cost plus accrued interest.

**Business Support Receivables** – Business support receivables are composed of receivables related to underwriting, sponsorships, and advertising support. An allowance for uncollectible balances has been established by management based upon the KEXP's historical experience in the collection of balances due.

**Pledges Receivable** – Pledges receivable are recognized in the period the pledge is received and consist of outstanding promises to give from a variety of individuals and foundations. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in more than one year are initially recorded at fair value, which is measured at the present value of their future cash flows. The discounts on those amounts are computed using donor specific risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. An allowance for uncollectible balances has been established by management based upon the KEXP's historical experience in the collection of balances due.

**FRIENDS OF KEXP dba KEXP-FM**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

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**Note 1 – Nature of Activities and Summary of Significant Accounting Policies (Continued)**

**Property and Equipment** – All acquisitions of property and equipment and all expenditures for repairs, maintenance, renewals and betterments in excess of \$5,000 that materially prolong the useful lives of assets are capitalized. Property and equipment is carried at cost. Depreciation is computed using the straight-line method over a period of three to ten years.

**Intangible Assets** – In 2014, KEXP capitalized the FCC License and other intangible assets including a trademark, domain name, and other intellectual property, at cost acquired in exchange for a sponsorship obligation to the University. The FCC License and other intangible assets are considered indefinite-lived assets and thus not amortized, but reviewed on an annual basis for any possible impairment. Management determined there were no events or changes in circumstance indicating an impaired value of the FCC License and other intangible assets at December 31, 2016 and 2015.

**Revenue Recognition** – Contributions include individual donor gifts, corporate and foundation grants, underwriting and sponsorship support, and gifts for the Capital Campaign. Underwriting and sponsorships are reported as support and revenue when the conditions of the agreements are met, that is when the related underwriting and sponsorship spots are run in programming.

Advertising support and revenue is recognized in the period the advertising occurs.

**Donated Goods, Facilities and Services** – KEXP receives in-kind contributions in return for sponsorship of its radio programming. Donations of goods and facilities include supplies, equipment, software and program and office space and are recorded as revenue at the estimated fair value at the date of donation. Donated services are recognized as revenue and corresponding expense when (a) the services received create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. In-kind contributions are included in contributions support and revenue on the statement of activities.

**Advertising Costs** – Advertising costs are expensed as incurred.

**Expense Allocation** – The costs of providing various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**Estimates** – Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

**FRIENDS OF KEXP dba KEXP-FM  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015**

**Note 1 – Nature of Activities and Summary of Significant Accounting Policies (Continued)**

**Income Tax Status** – KEXP is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. KEXP qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi) and has been classified as an organization other than a private foundation under Section 509(a)(1). Taxable unrelated business income includes on-line advertising.

KEXP files information and tax returns in the U.S. federal jurisdiction, and state and local jurisdictions. KEXP is subject to U.S. federal, state and local examinations by tax authorities for the current year and certain prior years based on applicable laws and regulations.

**Subsequent Events** – Subsequent events were evaluated through the independent auditors’ report date, which is the date the financial statements were available to be issued.

**Note 2 – Cash Flow Information**

The following reconciles the change in net assets to net cash provided (used) by operating activities for the years ended December 31:

	<u>2016</u>	<u>2015</u>
Change in net assets	\$ 1,353,655	\$ 4,151,434
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Contributions less costs restricted for capital campaign	(758,872)	(3,516,734)
Sponsorships provided to the University in lieu of obligation repayment	(304,229)	(292,610)
Donated property	(255,838)	(133,383)
Depreciation and amortization	1,093,836	344,274
Change in:		
Business support receivables, net	(40,047)	(1,932)
Pledges receivable, net	4,830	217,812
Prepaid expenses and inventory	(4,253)	(30,101)
Accounts payable and accrued expenses	(111,391)	215,588
Payroll liabilities	18,449	290,596
	<u>\$ 996,140</u>	<u>\$ 1,244,944</u>

**FRIENDS OF KEXP dba KEXP-FM**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

**Note 3 – Pledges and Business Support Receivables**

Pledges and business support receivables consist of the following at December 31:

	<u>2016</u>	<u>2015</u>
Pledges receivable for operations	\$ 1,772,096	\$ 1,771,037
Capital campaign receivables	2,323,300	5,450,256
Business support receivables	416,370	376,323
	<u>4,511,766</u>	<u>7,597,616</u>
Allowance for uncollectible receivables	(80,185)	(87,778)
Discount at 0.75% to 1.00%	(20,128)	(30,993)
	<u>\$ 4,411,453</u>	<u>\$ 7,478,845</u>
Gross receivables due in one year or less	\$ 3,641,829	\$ 6,401,963
Gross receivables due in one to five years	869,937	1,195,653
	<u>\$ 4,511,766</u>	<u>\$ 7,597,616</u>

**Note 4 – Property and Equipment**

Property and equipment consists of the following at December 31:

	<u>2016</u>	<u>2015</u>
Leasehold improvements	\$ 9,508,607	\$ 8,258,725
Software	1,097,046	1,110,210
Operating equipment and furniture	605,976	585,107
Digital library	399,729	311,842
Computers	41,813	47,183
	<u>11,653,171</u>	<u>10,313,067</u>
Less: accumulated depreciation	(2,247,942)	(1,209,471)
Work in process	123,356	43,500
	<u>\$ 9,528,585</u>	<u>\$ 9,147,096</u>

**FRIENDS OF KEXP dba KEXP-FM**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

**Note 5 – Temporarily Restricted Net Assets**

Temporarily restricted net assets are included in cash and cash equivalents, cash restricted for capital campaign, pledges and business support receivables and consist of the following programs and purposes at December 31:

	<u>2016</u>	<u>2015</u>
Capital campaign	\$ 1,464,365	\$ 1,139,946
For future operations	1,372,749	1,371,107
Other operations	510,756	27,939
Donated software	6,534	20,449
	<u>\$ 3,354,404</u>	<u>\$ 2,559,441</u>

**Note 6 – In-Kind Contributions**

In-kind contributions consist of the following for the years ended December 31:

	<u>2016</u>	<u>2015</u>
Donated goods	\$ 552,557	\$ 569,813
Donated services	1,895,764	1,456,057
Donated facility usage	165,349	204,570
	<u>\$ 2,613,670</u>	<u>\$ 2,230,440</u>

Related in-kind expenses consist of the following for the years ended December 31:

	<u>2016</u>	<u>2015</u>
Program services related	\$ 871,990	\$ 685,065
Management and general related	78,487	20,556
Fundraising related	1,128,092	1,098,826
	<u>\$ 2,078,569</u>	<u>\$ 1,804,447</u>

The difference between in-kind revenue and in-kind expense in 2016 is due to capitalized donated property and equipment of \$255,838 and donated pay down of the FCC license (see Note 10) of \$279,263. The difference between in-kind revenue and in-kind expense in 2015 is due to capitalized donated property and equipment of \$133,383 and donated pay down of the FCC license (see Note 10) of \$292,610.

**FRIENDS OF KEXP dba KEXP-FM**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

**Note 7 – Concentration**

One source composed 12% and 11% of total support and revenue in the years ended December 31, 2016 and 2015, respectively. KEXP has not experienced a loss related to these concentrations.

**Note 8 – Commitments**

KEXP signed a lease for space at the Seattle Center that expires in 2025. The lease requires a combination of cash payments and sponsorships provided to the landlord over the life of the lease. Future minimum cash and sponsorship payments under this lease are as follows for the years ending December 31:

	<u>Cash</u>	<u>Sponsorships</u>	<u>Total</u>
2017	\$ 62,500	\$ 228,000	\$ 290,500
2018	62,500	228,000	290,500
2019	62,500	228,000	290,500
2020	63,646	232,180	295,826
2021	64,919	236,823	301,742
Thereafter	<u>208,402</u>	<u>760,249</u>	<u>968,651</u>
	<u>\$ 524,467</u>	<u>\$ 1,913,252</u>	<u>\$ 2,437,719</u>

The future minimum lease obligation on the Seattle Center space is offset by a sublease, with expected future minimum rental income as follows for the years ending December 31:

2017	\$ 28,989
2018	29,857
2019	30,757
2020	31,680
2021	32,626
Thereafter	<u>137,458</u>
	<u>\$ 291,367</u>

KEXP also signed a lease for tower transmission space with a third party that expires in 2026. Future minimum lease payments under this lease are as follows for the years ending December 31:

2017	\$ 78,039
2018	78,845
2019	79,675
2020	80,530
2021	81,410
Thereafter	<u>360,614</u>
	<u>\$ 759,113</u>

**FRIENDS OF KEXP dba KEXP-FM**  
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**Note 8 – Commitments (Continued)**

As part of the leasehold improvement construction of the Seattle Center space, KEXP borrowed a line of credit from a financial institution due in 2018, secured by capital campaign pledges, grants and receipts and other personal property. Interest rate is 2.68% at December 31, 2016. Principal repayments are as follows for the years ending December 31:

2017	\$ 150,000
2018	<u>2,350,629</u>
	<u>\$ 2,500,629</u>

KEXP entered into a construction contract in relation to its Capital Campaign totaling approximately \$5.5 million. The president of the construction company is also a board member of KEXP. KEXP incurred \$883,584 and \$6,402,288 of construction costs to this construction company during the years ending December 31, 2016 and 2015, respectively.

**Note 9 – Employee Benefit Plan**

KEXP has adopted a 403(b) contribution pension plan for all full-time employees. The amount of KEXP's contribution to the plan is determined annually at the discretion of the Board of Directors. Contributions to the plan totaled \$206,111 and \$178,675 for the years ended December 31, 2016 and 2015, respectively.

**Note 10 – Related Entity Activity**

In 2005, the KEXP issued a note payable to the University of interest-free amount of \$250,000 to assist in restructuring staffing capacity. The intent of the funds has been fully executed. In accordance with the amended Management Agreement, the University requires repayments of the note payable through 2020. Repayments are as follows for the years ending December 31:

2017	\$ 50,000
2018	50,000
2019	50,000
2020	<u>50,000</u>
	<u>\$ 200,000</u>



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**Note 10 – Related Entity Activity (Continued)**

In 2014, KEXP acquired an FCC License, other intangible assets, and equipment from the University in exchange for a sponsorship obligation. All assets acquired were appraised at \$4,001,100. KEXP allocated \$115,613 of the appraised value to equipment based on estimated fair value, and the remaining value to the FCC License and other intangible assets. In lieu of cash repayments, the sponsorship obligation is satisfied by performing sponsorships for the University over a 10 year period. During 2016 and 2015, KEXP provided sponsorships valued at \$304,229 and \$292,610, respectively, to the University, and therefore recognized sponsorship revenue and reduced the obligation by this amount. Sponsorships performed as repayment of the sponsorship obligation are expected to be as follows for the years ending December 31:

2017		\$ 400,110
2018		400,110
2019		400,110
2020		400,110
2021		400,110
Thereafter		1,325,355
		\$ 3,325,905

In addition, the following transactions occurred between KEXP and the University during the years ended December 31:

	2016	2015
Support and revenues		
In-kind contributions	\$ 1,125,442	\$ 1,206,119
Use of sponsorship obligation	304,230	292,610
Underwriting contributions	35,798	24,038
	\$ 1,465,470	\$ 1,522,767
Expenses		
In-kind information technology	\$ 155,522	\$ 144,719
In-kind fundraising and other fees for service	969,920	1,061,400
In-kind expenses	1,125,442	1,206,119
Payroll and related	54,096	35,757
Other expenses	70,123	186,030
	\$ 1,249,661	\$ 1,427,906

**FRIENDS OF KEXP dba KEXP-FM**  
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**Note 10 – Related Entity Activity (Continued)**

The following amounts are due to the University at December 31:

	<u>2016</u>	<u>2015</u>
Note payable	\$ 200,000	\$ 225,000
Sponsorship obligation	3,325,905	3,630,134
Other payables	-	26,817
	<u>\$ 3,525,905</u>	<u>\$ 3,881,951</u>

Other payables are included in accounts payable and accrued expenses on the statement of financial position.