

FRIENDS OF KSPS
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEARS ENDED AUGUST 31, 2017 AND 2016

**FRIENDS OF KSPS
TABLE OF CONTENTS
YEARS ENDED AUGUST 31, 2017 AND 2016**

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	18

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 statement of financial position as of August 31, 2017, and the related statements of activities, and cash flows for the year 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 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 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, 2017, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

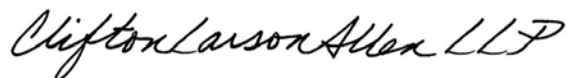
Other Matter

The 2016 financial statements of Friends of KSPS were audited by other auditors whose report dated November 10, 2016, expressed an unmodified opinion on those statements.

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 is 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.



CliftonLarsonAllen LLP

Spokane, Washington
November 28, 2017

**FRIENDS OF KSPS
STATEMENTS OF FINANCIAL POSITION
AUGUST 31, 2017 AND 2016**

	2017	2016
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 1,005,744	\$ 1,503,088
Investments	413,718	466,330
Receivables:		
Grant Receivable	92,841	-
Program Underwriting	199,196	135,306
Other	1,512	1,336
Prepaid Expenses and Deposits	151,778	29,395
Total Current Assets	1,864,789	2,135,455
NONCURRENT ASSETS		
Investments Held in Friends of KSPS Endowment Fund	717,864	615,279
Beneficial Interest in Inland Northwest Community Foundation	688,212	643,810
Beneficial Interest in Charitable Remainder Trusts	30,425	29,026
Equipment, Net of Accumulated Depreciation	1,341,821	1,156,607
Total Noncurrent Assets	2,778,322	2,444,722
 Total Assets	 \$ 4,643,111	 \$ 4,580,177
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable	\$ 85,340	\$ 68,253
Accrued Compensation and Related Liabilities	4,353	1,104
Deferred Program Underwriting Revenue	125,708	154,182
Deferred Grant Revenue	108,602	67,734
Capital Lease Obligation	-	80,475
Total Liabilities	324,003	371,748
NET ASSETS		
Unrestricted	4,288,683	4,179,403
Temporarily Restricted	30,425	29,026
Total Net Assets	4,319,108	4,208,429
 Total Liabilities and Net Assets	 \$ 4,643,111	 \$ 4,580,177

See accompanying Notes to Financial Statements.

**FRIENDS OF KSPS
STATEMENTS OF ACTIVITIES
YEARS ENDED AUGUST 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
SUPPORT, REVENUE, AND GAINS		
Memberships and Contributions	\$ 3,154,300	\$ 3,169,988
Community Service Grants from the Corporation for Public Broadcasting	1,053,851	1,045,967
Other Grants	499,623	399,265
Program Underwriting	391,196	248,961
Engineering Services	415,559	626,311
Production Services	23,260	148,586
Foundation, Bequest, and Trust Contributions	26,186	77,235
Investment Income	79,447	32,653
Change in Value of Beneficial Interest in Inland Northwest Community Foundation	66,971	16,816
Loss on Disposal of Equipment	-	(9,383)
Other	98,561	79,845
Net Assets Released from Restrictions	-	296,944
Total Support, Revenue, and Gains	<u>5,808,954</u>	<u>6,133,188</u>
EXPENSES		
Program Services:		
Programming and Production	2,279,810	2,412,056
Engineering Services	1,165,590	1,005,665
Program Information	256,386	264,458
Member Services	856,825	766,930
Total Program Services	<u>4,558,611</u>	<u>4,449,109</u>
Supporting Services:		
Fundraising	404,287	494,438
Program Underwriting	272,429	160,482
Management and General	464,347	568,192
Total Supporting Services	<u>1,141,063</u>	<u>1,223,112</u>
Total Expenses	<u>5,699,674</u>	<u>5,672,221</u>
CHANGE IN UNRESTRICTED NET ASSETS	109,280	460,967
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS		
Change in Value of Beneficial Interest in Charitable Remainder Trust	1,399	(22,128)
Net Assets Released from Restrictions	-	(296,944)
Total Change in Temporarily Restricted Net Assets	<u>1,399</u>	<u>(319,072)</u>
CHANGE IN NET ASSETS	110,679	141,895
Net Assets – Beginning of Year	<u>4,208,429</u>	<u>4,066,534</u>
NET ASSETS – END OF YEAR	<u>\$ 4,319,108</u>	<u>\$ 4,208,429</u>

See accompanying Notes to Financial Statements.

**FRIENDS OF KSPS
STATEMENTS OF CASH FLOWS
YEARS ENDED AUGUST 31, 2017 AND 2016**

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Memberships, Contributions, and Program Underwriting Collected	\$ 3,555,451	\$ 3,592,465
Community Service Grants from the Corporation for Public Broadcasting and Other Grants	1,460,633	1,512,966
Engineering Services	193,559	476,649
Productions Services	23,260	148,586
Investment Income	28,316	13,350
Cash Paid to and on Behalf of Employees	(2,121,776)	(2,179,448)
Cash Paid to Suppliers and Spokane Public Schools	(3,119,043)	(3,035,640)
Net Cash Provided by Operating Activities	20,400	528,928
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Equipment	(462,395)	(180,153)
Purchase of Investments	(317,780)	(691,679)
Sale of Investments	320,337	328,846
Distribution from Charitable Remainder Trust	-	296,944
Distributions from Beneficial Interest in Inland Northwest Community Foundation	22,569	-
Net Cash Used by Investing Activities	(437,269)	(246,042)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Line of Credit	680,954	660,000
Principal Payments on Line of Credit	(680,954)	(660,000)
Payment on Capital Lease Obligation	(80,475)	(80,666)
Net Cash Used by Financing Activities	(80,475)	(80,666)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(497,344)	202,220
Cash and Cash Equivalents – Beginning of Year	1,503,088	1,300,868
CASH AND CASH EQUIVALENTS – END OF YEAR	\$ 1,005,744	\$ 1,503,088

See accompanying Notes to Financial Statements.

**FRIENDS OF KSPS
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED AUGUST 31, 2017 AND 2016**

	2017	2016
RECONCILIATION OF CHANGES IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Change in Net Assets	\$ 110,679	\$ 141,895
Adjustments to Reconcile Net Income to Net Cash		
Provided by Operating Activities:		
Depreciation	277,181	254,312
Change in Value of Charitable Remainder Trusts	(1,399)	22,128
Change in Value of Beneficial Interest in Inland Northwest		
Community Foundation	(66,971)	(16,816)
Loss (Gain) on Investments, Net	(52,530)	(19,303)
Loss on Disposal of Equipment	-	9,383
(Increase) Decrease in Assets:		
Engineering Services Receivable	(92,841)	62,500
Program Underwriting Receivable	(63,890)	(57,628)
Other Receivables	(176)	7,838
Prepaid Expenses and Deposits	(122,383)	7,105
Increase (Decrease) in Liabilities:		
Accounts Payable	17,087	(22,446)
Accrued Compensation and Related Liabilities	3,249	(1,838)
Deferred Program Underwriting Revenue	(28,474)	74,064
Deferred Grant Revenue	40,868	67,734
Net Cash Provided by Operating Activities	\$ 20,400	\$ 528,928
 NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
During the year ended August 31, 2016, the Organization entered into a capital lease obligation in the amount of \$161,141 to finance the purchase of broadcast equipment.		
 SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES		
In-Kind Contributions	\$ 283,721	\$ 222,000

See accompanying Notes to Financial Statements.

**FRIENDS OF KSPS
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2017 AND 2016**

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.

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.

**FRIENDS OF KSPS
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2017 AND 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 \$500. All capital assets are depreciated using the straight-line method of depreciation over estimated useful lives as follows:

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

Deferred Revenue

Deferred revenue consist of unearned revenue from grants and underwriting.

**FRIENDS OF KSPS
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2017 AND 2016**

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 2017 or 2016.

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 have either 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, 2017 AND 2016**

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 and also holds one guaranteed investment contract in Canada for investment purposes. 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, 2017 and 2016, the Organization had no uncertain tax positions.

Subsequent Events

The Organization has evaluated subsequent events through November 28, 2017, the date on which the financial statements were available to be issued.

NOTE 2 INVESTMENTS

Investments consisted of the following:

	<u>2017</u>	<u>2016</u>
Mutual Funds:		
Money Market	\$ 86,351	\$ 59,099
Equities	374,505	335,572
Fixed Income	430,380	395,122
Alternative	240,346	215,416
Guaranteed Investment Contract	-	76,400
Total	<u>\$ 1,131,582</u>	<u>\$ 1,081,609</u>

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

	<u>2017</u>	<u>2016</u>
Investments	\$ 413,718	\$ 466,330
Investments Held in Friends of KSPS Endowment Fund	717,864	615,279
Total	<u>\$ 1,131,582</u>	<u>\$ 1,081,609</u>

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

	<u>2017</u>	<u>2016</u>
Gains and Losses, Net	\$ 52,530	\$ 19,303
Interest and Dividends Earned	26,917	13,350
Total	<u>\$ 79,447</u>	<u>\$ 32,653</u>

**FRIENDS OF KSPS
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2017 AND 2016**

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, 2015	\$ -
Deposits	615,279
Endowment Net Assets, August 31, 2016	<u>615,279</u>
Investment Return:	
Investment Income, Net	11,646
Net Gain (Loss) on Investments:	
Realized Loss	13,326
Unrealized Gain	22,595
Deposits	121,799
Transfer to Operating	(66,781)
Endowment Net Assets, August 31, 2017	<u><u>\$ 717,864</u></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, 2017 AND 2016**

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 thirteen-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 INLAND NORTHWEST COMMUNITY FOUNDATION

The Organization recognizes, as its assets, funds held by the Inland Northwest Community Foundation Endowment Fund (the Fund) that were contributed directly to the Fund by the Organization. Inland Northwest Community 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 Inland Northwest Community Foundation.

NOTE 5 BENEFICIAL INTEREST IN CHARITABLE REMAINDER TRUSTS

The Organization has established, through its deferred giving programs, two charitable remainder trusts of which the Organization is the remainderman. The Organization received a final distribution from one of the trusts in the year ended August 31, 2016. The trusts, 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 trusts. 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 trusts 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, 2017 AND 2016**

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 Inland Northwest Community 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:

	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 Inland Northwest Community Foundation	-	-	688,212	688,212
Beneficial Interest in Charitable Remainder Trusts	-	-	30,425	30,425
Total	<u>\$ 1,131,582</u>	<u>\$ -</u>	<u>\$ 718,637</u>	<u>\$ 1,850,219</u>

**FRIENDS OF KSPS
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2017 AND 2016**

NOTE 6 FAIR VALUE HIERARCHY (CONTINUED)

	2016			
	Level 1	Level 2	Level 3	Total
Mutual Funds:				
Money Market	\$ 59,099	\$ -	\$ -	\$ 59,099
Equities	335,572	-	-	335,572
Fixed Income	395,122	-	-	395,122
Alternative	215,416	-	-	215,416
Guaranteed Investment Certificate	-	76,400	-	76,400
Beneficial Interest in Inland Northwest Community Foundation	-	-	643,810	643,810
Beneficial Interest in Charitable Remainder Trusts	-	-	29,026	29,026
Total	<u>\$ 1,005,209</u>	<u>\$ 76,400</u>	<u>\$ 672,836</u>	<u>\$ 1,754,445</u>

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

	Balance August 31, 2016		Investment				Balance August 31, 2017	
	Contributions	(Loss)	Realized Gain (loss)	Unrealized Gain (loss)	Investment Fees	Distributions		
Beneficial Interest in Inland Northwest Community 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>

	Balance August 31, 2015		Investment				Balance August 31, 2016	
	Contributions	(Loss)	Realized Gain (loss)	Unrealized Gain (loss)	Investment Fees	Distributions		
Beneficial Interest in Inland Northwest Community Foundation	\$ 626,994	\$ -	\$ 20,368	\$ 1,169	\$ 12,996	\$ (7,832)	\$ (9,885)	\$ 643,810
Beneficial Interest in Charitable Remainder Trust	348,098	-	(22,128)	-	-	-	(296,944)	29,026
Total	<u>\$ 975,092</u>	<u>\$ -</u>	<u>\$ (1,760)</u>	<u>\$ 1,169</u>	<u>\$ 12,996</u>	<u>\$ (7,832)</u>	<u>\$ (306,829)</u>	<u>\$ 672,836</u>

**FRIENDS OF KSPS
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2017 AND 2016**

NOTE 7 EQUIPMENT

A summary of equipment is as follows:

	2017	2016
Broadcast Equipment	\$ 1,764,473	\$ 1,379,692
Transmitter Equipment	626,360	520,147
Digital Equipment	115,287	115,287
Office Equipment	130,204	130,204
Vehicles	5,359	5,359
Construction in Progress	-	28,599
Total	<u>2,641,683</u>	<u>2,179,288</u>
Accumulated Depreciation	(1,299,862)	(1,022,681)
Equipment, Net	<u>\$ 1,341,821</u>	<u>\$ 1,156,607</u>

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, 2017 and 2016, the capitalized cost and accumulated depreciation of the capital lease obligation was \$161,141; \$21,485 and \$161,141; \$10,743, 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 2017 or 2016. The in-kind engineering revenue and occupancy expense of \$222,000 was recorded in the 2017 and 2016 financial statements.

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 December 12, 2017. 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, 2017 and 2016, the outstanding balance was \$-0-.

FRIENDS OF KSPS
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2017 AND 2016

NOTE 11 OPERATING LEASES

The Organization's leases consisted of postal equipment and software. Lease expense during the years ended August 31, 2017 and 2016, was approximately \$63,000 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>
2018	\$ 26,909
2019	4,668
2020	1,167
Total	<u>\$ 32,744</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, 2017 and 2016, the Organization had \$115,452 and \$92,833, 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 entered into a guaranteed investment contract with the Royal Bank of Canada during fiscal year 2016 in the amount of \$100,000 (\$76,400 in U.S. dollars). The contract is insured by the CDIC up to \$100,000 (principal and interest combined). These funds were available when the contract matured on January 8, 2017.

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.

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, 2017 and 2016, the Organization contributed 3% of each participant's salary, subject to annual IRC limits. Contributions to the plan totaled approximately \$51,000 in each year for the years ended August 31, 2017 and 2016.

**FRIENDS OF KSPS
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2017 AND 2016**

NOTE 14 MEMBERSHIP AND CONTRIBUTIONS

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

	<u>2017</u>	<u>2016</u>
U.S. Contributions	\$ 1,988,455	\$ 1,901,270
Canadian Contributions	1,591,836	1,685,595
Canadian Exchange Discount	(425,991)	(416,877)
Total	<u>\$ 3,154,300</u>	<u>\$ 3,169,988</u>

**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

**FRIENDS OF KSPS
SCHEDULE OF FUNCTIONAL EXPENSES
YEAR ENDED AUGUST 31, 2016
(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	\$ 438,930	\$ 544,445	\$ 54,158	\$ 373,438	\$ 1,410,971	\$ 9,472	\$ 91,501	\$ 205,482	\$ 306,455	\$ 1,717,426
Employee Benefits	83,422	107,636	11,273	84,972	287,303	629	6,075	12,095	18,799	306,102
Payroll Taxes	39,922	49,519	4,926	33,965	128,332	862	8,322	16,566	25,750	154,082
Dues, Licenses, and Permits	908,999	-	-	-	908,999	-	-	-	-	908,999
Grant Expense	4,972	-	-	-	4,972	-	-	-	-	4,972
Printing, Postage, and Supplies	7,103	12,277	168,392	204,080	391,852	386,873	-	16,303	403,176	795,028
Local Program Production	31,401	-	-	-	31,401	-	-	-	-	31,401
Telemarketing	-	-	-	-	-	50,785	-	-	50,785	50,785
Leases and Maintenance										
Agreements	-	32,119	-	-	32,119	-	-	101,061	101,061	133,180
Depreciation	254,312	-	-	-	254,312	-	-	-	-	254,312
Special Events	-	-	-	-	-	-	-	8,126	8,126	8,126
Building Lease	111,000	-	-	-	111,000	-	-	111,000	111,000	222,000
Other	531,995	259,669	25,709	70,475	887,848	45,817	54,584	97,559	197,960	1,085,808
Total Expenses	\$ 2,412,056	\$ 1,005,665	\$ 264,458	\$ 766,930	\$ 4,449,109	\$ 494,438	\$ 160,482	\$ 568,192	\$ 1,223,112	\$ 5,672,221