



**PACIFIC PUBLIC MEDIA
(KNKX)**

**Financial Statements and
Independent Auditor's Report
May 31, 2023
(With Comparative Totals for 2022)**

**PACIFIC PUBLIC MEDIA
(KNKX)**

**INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED MAY 31, 2023
(WITH COMPARITATIVE TOTALS FOR 2022)**

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**Independent
Auditor's Report**

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Pacific Public Media
Seattle, Washington

Opinion

We have audited the accompanying financial statements of Pacific Public Media (KNKX), which comprise the statement of financial position as of May 31, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of KNKX as of May 31, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of KNKX and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Change in Accounting Principle

As described in note 10 to the financial statements, KNKX changed their accounting principle with regards to recurring gifts such that contributions are now recorded when cash is received and when the recurring gift is initiated. Our opinion is not modified with respect to that matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about KNKX's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibility

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 KNKX's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about KNKX's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Summarized Comparative Information

The financial statements of KNKX as of and for the year ended May 31, 2022, were audited by other auditors whose report dated November 16, 2022, expressed an unmodified opinion on those statements. In our opinion, the summarized comparative information presented herein as of and for the year ended May 31, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in cursive script that reads "Francis & Company".

Francis & Company PLLC
November 8th, 2023

Statement of Financial Position

**PACIFIC PUBLIC MEDIA
(KNKX)**

**STATEMENT OF FINANCIAL POSITION
AS OF MAY 31, 2023 (WITH COMPARATIVE TOTALS FOR 2022)**

	2023	2022
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$2,157,507	\$ 3,871,807
Underwriting receivable	163,927	230,871
Contributions receivable, net	438,803	1,408,627
Employee retention credit receivable	-	676,560
Prepaid expenses	302,102	390,139
Total current assets	3,062,339	6,578,004
NON-CURRENT ASSETS		
Contributions receivable, net	-	550,151
Property and equipment, net	8,447,953	3,307,089
Operating lease right-of-use assets	5,064,071	-
Intangible assets, net	8,021,176	8,056,835
Total non-current assets	21,533,200	11,914,075
TOTAL ASSETS	\$24,595,539	\$18,492,079
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 233,648	\$ 63,277
Salaries and benefits payable	160,091	141,371
Current portion of debt	1,400,000	129,960
Current portion of operating lease liability	434,626	-
Current portion of deferred underwriting	19,055	13,055
Total current liabilities	2,247,420	347,663
NON-CURRENT LIABILITIES		
Deferred underwriting	306,895	408,295
Tenant allowance liability	-	190,466
Deferred rent liability	-	39,425
Operating lease liability	5,164,916	-
Total non-current liabilities	5,471,811	638,186
TOTAL LIABILITIES	\$7,719,231	\$ 985,849
NET ASSETS		
Without donor restrictions	16,335,482	14,930,080
With donor restrictions	540,826	2,576,150
Total net assets	16,876,308	17,506,230
TOTAL LIABILITIES AND NET ASSETS	\$24,595,539	\$18,492,079

See accompanying notes to financial statements.

Statement of Activities

**PACIFIC PUBLIC MEDIA
(KNKX)**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MAY 31, 2023 (WITH COMPARATIVE TOTALS FOR 2022)**

	Without Donor Restrictions	2023 With Donor Restrictions	Total	Without Donor Restrictions	2022 With Donor Restrictions	Total
REVENUE AND SUPPORT						
Listener support	\$ 6,096,802	\$ -	\$ 6,096,802	\$ 4,950,105	\$ 1,333,627	\$ 6,283,732
Community service grant from Corporation for Public Broadcasting	447,078	-	447,078	495,534	-	495,534
Underwriting	1,326,530	-	1,326,530	1,414,269	-	1,414,269
In-kind contributions	491,620	-	491,620	553,317	-	553,317
Other income	82,954	-	82,954	65,330	-	65,330
Net assets released from restrictions	75,000	(75,000)	-	1,315,817	(1,315,817)	-
TOTAL REVENUE AND SUPPORT	8,519,984	(75,000)	8,444,984	8,794,372	17,810	8,812,182
EXPENSES						
Program Services						
Programming and production	3,861,484	-	3,861,484	3,537,286	-	3,537,286
Broadcasting	1,671,707	-	1,671,707	1,459,453	-	1,459,453
Program Information and promotion	541,627	-	541,627	611,422	-	611,422
Total Program Services	6,074,818	-	6,074,818	5,608,161	-	5,608,161
Supporting services						
General and administrative	275,407	-	275,407	947,709	-	947,709
Fundraising and membership development	1,898,911	-	1,898,911	2,181,483	-	2,181,483
Total Supporting Services	2,174,318	-	2,174,318	3,129,192	-	3,129,192
TOTAL EXPENSES	8,249,136	-	8,249,136	8,737,353	-	8,737,353
CHANGE IN NET ASSETS BEFORE CAPITAL CAMPAIGN AND EMPLOYEE RETENTION CREDIT	270,848	(75,000)	195,848	57,019	17,810	74,829
Capital campaign contributions	-	2,312,728	2,312,728	-	1,167,523	1,167,523
Capital campaign expenses	(1,804,871)	-	(1,804,871)	(62,593)	-	(62,593)
Employee retention credit	-	-	-	676,560	-	676,560
Net assets released from restrictions	2,939,425	(2,939,425)	-	-	-	-
CHANGE IN NET ASSETS	1,405,402	(701,697)	703,705	670,986	1,185,333	1,856,319
Change in accounting principle (Note 10)	-	(1,333,627)	(1,333,627)	-	-	-
Net Assets, beginning of year	14,930,080	2,576,150	17,506,230	14,259,094	1,390,817	15,649,911
NET ASSETS, END OF YEAR	\$ 16,335,482	\$ 540,826	\$ 16,876,308	\$ 14,930,080	\$ 2,576,150	\$ 17,506,230

See accompanying notes to financial statements.

Statements of Functional Expenses

**PACIFIC PUBLIC MEDIA
(KNKX)**

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED MAY 31, 2023**

	Program		Services		Support		Services		Total
	Programming & Production	Broadcasting & Engineering	Public Information & Promotion	Total Program Services	General & Administration	Fundraising & Membership Development	Capital Campaign	Total Support Services	
Salaries, payroll taxes, & benefits	\$ 2,241,026	\$ 336,346	\$ -	\$ 2,577,372	\$ 49,108	\$ 1,116,263	\$ 1,290,619	\$ 2,455,990	\$ 5,033,362
Professional & contract fees	1,488,313	160,455	58,056	1,706,824	97,192	265,125	251,203	613,520	2,320,344
Occupancy & tower leases	-	876,570	-	876,570	-	-	-	-	876,570
Advertising	-	-	480,371	480,371	897	-	-	897	481,268
Depreciation	17,509	3,964	-	21,473	5,946	41,275	181,117	228,338	249,811
Software & technology	39,253	123,854	22	163,129	2,824	43,964	-	46,788	209,917
Bank service charges	-	-	-	-	15,032	175,067	-	190,099	190,099
Postage printing & shipping	-	5,591	1,052	6,643	515	108,362	9,345	118,222	124,865
Supplies	1,841	18,237	551	20,629	18,832	60,434	373	79,639	100,268
Utilities	3,281	88,651	-	91,932	-	-	-	-	91,932
Travel	47,931	8,904	310	57,145	11,058	7,028	160	18,246	75,391
Repairs & maintenance	1,946	30,263	-	32,209	-	-	29,888	29,888	62,097
Meetings & entertainment	3,568	-	1,133	4,701	12,621	23,659	9,017	45,297	49,998
Taxes	183	17,462	132	17,777	3,613	12,128	435	16,176	33,953
In-kind support	-	-	-	-	-	33,620	-	33,620	33,620
Insurance	-	-	-	-	30,468	-	-	30,468	30,468
Dues & subscriptions	13,390	504	-	13,894	4,163	11,986	-	16,149	30,043
Legal services	-	-	-	-	16,756	-	8,216	24,972	24,972
Interests	-	-	-	-	3,479	-	16,444	19,923	19,923
License, fees & permits	-	906	-	906	2,903	-	8,054	10,957	11,863
Miscellaneous	3,243	-	-	3,243	-	-	-	-	3,243
Total Expenses	3,861,484	1,671,707	541,627	6,074,818	275,407	1,898,911	1,804,871	3,979,189	10,054,007
Less: Capital campaign expenses	-	-	-	-	-	-	(1,804,871)	(1,804,871)	(1,804,871)
Net Expenses	\$ 3,861,484	\$ 1,671,707	\$ 541,627	\$ 6,074,818	\$ 275,407	\$ 1,898,911	\$ -	\$ 2,174,318	\$ 8,249,136

See accompanying notes to financial statements.

**PACIFIC PUBLIC MEDIA
(KNKX)**

**STATEMENT OF FUNCTIONAL EXPENSES
COMPARATIVE TOTALS FOR THE YEAR ENDED MAY 31, 2022**

	Program Services				Support Services				Total
	Programming & Production	Broadcasting & Engineering	Public Information & Promotion	Total Program Services	General & Administration	Fundraising & Membership Development	Capital Campaign	Total Support Services	
Salaries, payroll taxes, & benefits	\$ 1,986,287	\$ 309,380	\$ -	\$ 2,295,667	\$ 637,083	\$ 1,425,881	\$ -	\$ 2,062,964	\$ 4,358,631
Professional & contract fees	1,349,056	161,238	49,754	1,560,048	166,593	276,929	49,555	493,077	2,053,125
Occupancy & tower leases	-	630,794	-	630,794	-	-	(6,990)	(6,990)	623,804
Advertising	-	-	557,581	557,581	7,726	-	-	7,726	565,307
Depreciation	119,733	32,728	-	152,461	42,379	64,676	-	107,055	259,516
Software & technology	38,535	141,649	-	180,184	1,398	80,348	-	81,746	261,930
Bank service charges	-	-	-	-	-	134,281	-	134,281	134,281
Utilities	3,661	107,636	-	111,297	-	-	-	-	111,297
Supplies	1,023	12,126	570	13,719	10,503	65,965	-	76,468	90,187
Postage printing & shipping	-	5,132	1,567	6,699	146	61,224	1,815	63,185	69,884
Travel	27,820	13,153	624	41,597	10,596	4,749	-	15,345	56,942
In-kind support	-	-	-	-	-	38,300	-	38,300	38,300
Taxes	183	17,339	-	17,522	5,411	10,895	29	16,335	33,857
Insurance	-	-	-	-	33,123	-	-	33,123	33,123
Repairs & maintenance	33	28,278	-	28,311	-	-	-	-	28,311
Legal services	-	-	-	-	11,578	-	13,410	24,988	24,988
Meetings & entertainment	548	-	665	1,213	3,543	12,386	4,774	20,703	21,916
Miscellaneous	1,485	-	661	2,146	14,663	2,572	-	17,235	19,381
Dues & subscriptions	8,922	-	-	8,922	1,899	3,277	-	5,176	14,098
License, fees & permits	-	-	-	-	1,068	-	-	1,068	1,068
Total Expenses	3,537,286	1,459,453	611,422	5,608,161	947,709	2,181,483	62,593	3,191,785	8,799,946
Less: Capital campaign expenses	-	-	-	-	-	-	(62,593)	(62,593)	(62,593)
Net Expenses	\$ 3,537,286	\$ 1,459,453	\$ 611,422	\$ 5,608,161	\$ 947,709	\$ 2,181,483	\$ -	\$ 3,129,192	\$ 8,737,353

See accompanying notes to financial statements.

Statement of Cash Flows

**PACIFIC PUBLIC MEDIA
(KNKX)**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MAY 31, 2023 (WITH COMPARATIVE TOTALS FOR 2022)**

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
<i>Change in net assets, net of change in accounting principle (Note 10)</i>	\$(629,922)	\$1,856,319
<i>Adjustments to reconcile change in net assets to net cash from operating activities:</i>		
Contributions restricted for capital campaign	(2,312,728)	(1,167,523)
Depreciation on property and equipment	214,152	259,516
Amortization of software conversion costs	35,659	20,801
<i>Changes in operating assets and liabilities:</i>		
Underwriting receivables	66,944	(93,492)
Contributions receivable	1,408,627	(30,744)
Employee retention credit receivable	676,560	(676,560)
Prepaid expenses	88,037	(31,874)
Right-of-use assets	(5,064,071)	-
Accounts payable and other accrued expenses	189,091	23,032
Deferred underwriting	(95,400)	(113,775)
Lease liability	5,369,651	32,435
Net cash (used in) provided by operating activities	(53,400)	78,135
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of furniture, fixtures, and equipment including capital campaign	(5,355,016)	(211,201)
Net cash used in investing activities	(5,355,016)	(211,201)
CASH FLOWS FROM FINANCING ACTIVITIES		
Capital campaign proceeds	2,424,076	625,754
Line of credit proceeds	2,000,000	-
Payments on long-term and other debt	(729,960)	(133,710)
Net cash from financing activities	3,694,116	492,044
Net increase (decrease) in cash and cash equivalents	(1,714,300)	358,978
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,871,807	3,512,829
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 2,157,507	\$ 3,871,807

See accompanying notes to financial statements.

Notes to the Financial Statements

**PACIFIC PUBLIC MEDIA
(KNKX)**

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization

Pacific Public Media (KNKX), incorporated January 13, 2016, and operating under KNKX 88.5 FM (KNKX), is a nonprofit corporation providing public radio programming and services to the Puget Sound region. KNKX broadcasts from its Seattle and Tacoma stations.

KNKX prides itself as a source of jazz, blues, and in-depth local and national news, available 24 hours a day online, through a cell phone application, or on the radio. KNKX also provides a full-time streaming jazz service, Jazz24. Broadcasting around the world, Jazz24 reaches a worldwide audience and further spreads the American music genre of jazz to new and old listeners alike.

KNKX runs an ongoing capital campaign to build its radio station space in Tacoma and Seattle Washington. The Tacoma station was placed into service in March 2020. In the prior year, KNKX began to focus its capital campaign efforts on Seattle and \$5,565,625 has been spent on developing the Seattle Studio as of May 31, 2023.

Financial Statement Presentation

KNKX reports information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions. Contributions restricted by time or program are reported as net assets with donor restrictions and are then reclassified to net assets without donor restrictions when the restrictions are met.

Board-Designated Net Assets:

KNKX has an operating reserve of \$1,693,439 that is designated by the Board and included within net assets without donor restrictions at May 31, 2023 and 2022.

Net Assets with Donor Restrictions:

Net assets with donor restrictions consist of the following at May 31:

	2023	2022
Time-restricted listener and capital support	\$540,826	\$ 1,333,627
Capital campaign	-	1,167,523
Time-restricted grants	-	75,000
	\$ 540,826	\$ 2,576,150

Time-restricted listener support represents contributions scheduled by the listener to be received in the following year. KNKX has elected to report net assets with donor restrictions whose restrictions are met in the same period they are received as being without donor restrictions.

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 certain reported amounts and disclosures. Actual results could differ from the estimated amounts.

**PACIFIC PUBLIC MEDIA
(KNKX)**

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 1 SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES
(continued)**

Reclassifications

Certain amounts presented in the prior year's financial statements have been reclassified to conform to the current year's presentation. Such reclassifications had no effect on the reported results of operations, except for the change in estimate.

Cash and cash equivalents

Cash consists of cash held in banks. At times during the year, KNKX has cash in banks in excess of the FDIC insurance limits. To mitigate this risk, management believes it has selected financially sound banks to hold its funds.

Receivables

Almost all underwriting fees come from companies located in the Pacific Northwest. These receivables are stated at their outstanding principal balances.

Unconditional promises to give (contributions receivable) that are expected to be collected in one year are recorded at net realizable value. Contributions receivable over periods more than one year are initially recorded at fair value including assumptions about expected year of collection, estimated allowance, and donor-specific discount rates.

Management reviews underwriting and contributions receivable on a regular basis and establishes an allowance of 15% for accounts that may not be collectible. Any amounts written off are charged against the allowance. Management determined an allowance for uncollectible underwriting and contribution receivables of \$102,023 and \$97,067 at May 31, 2023 and 2022, respectively.

Property and equipment and depreciation

KNKX capitalizes expenditures for property and equipment at cost or, if donated, at the estimated fair value at the time of receipt. KNKX capitalizes property and equipment purchases with a cost or donated value of greater than \$10,000 and an estimated useful life of more than one year. Depreciation is computed using the straight-line method over the estimated useful lives for all property and equipment. Leasehold improvements are depreciated on the straight-line basis over the shorter of the term of the lease or the estimated useful lives of the improvements.

Identifiable intangible assets and amortization

Identifiable intangible assets consist of amortizable, and indefinite lived intangible assets. Indefinite lived intangible assets are stated at cost and consist of \$7,935,000 in Federal Communications Commission (FCC) licenses at May 31, 2023 and 2022. FCC licenses were acquired in 2016 from Pacific Lutheran University (PLU) and have an indefinite life and, therefore, are not amortized. Intangible assets are reviewed at least annually for potential impairment.

Software conversion costs to a new software as a service were capitalized in the amount of \$142,636 as of May 31, 2021. Amortization began during the year ended May 31, 2022, when the software was implemented. Amortization expenses amounted to \$35,659 and \$20,801 for the years ended May 31, 2023 and 2022, respectively.

**PACIFIC PUBLIC MEDIA
(KNKX)**

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 1 SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES
(continued)**

Leases

Leases arise from contractual obligations that convey the right to control the use of identified property and equipment for a period in exchange for consideration. At the inception of the contract, KNKX determines if an arrangement contains a lease based on whether there is an identified asset and whether they control the use of the identified asset. KNKX also determines whether the lease classification is an operating or financing lease at the commencement date.

A right-of-use asset represents KNKX's right to use an underlying asset and a lease liability represents KNKX's obligation to make payments during the lease term. Right-of-use assets are recorded and recognized at commencement of the lease for the lease liability amount, adjusted for initial direct costs incurred and lease incentives received. Leases liabilities are recorded at the present value of the future lease payments over the lease term at commencement of the lease. The implicit rates for KNKX's leases are not readily determinable, therefore, KNKX elected to use a risk-free discount rate at the lease commencement date for all new leases and at June 1, 2022 (Adoption Date).

KNKX's real estate operating leases typically include non-lease components such as common area maintenance costs. KNKX elected to combine non-lease payments for the purpose of calculating lease right-of-use assets and liabilities to the extent that these are fixed. Non-lease components that are neither fixed nor variable based on an index or rate are expensed as incurred as variable lease payments.

Certain KNKX's leases contain options to extend the lease term at prevailing market rates at the time of renewal. Management cannot predict the future economic landscape; therefore, it is not reasonably certain to exercise the extension options. KNKX uses the base non-cancellable, lease term when recognizing the lease assets and liabilities. KNKX lease agreements do not contain any material restrictive covenants.

For contracts existing as of the Adoption Date, KNKX elected the practical expedient and did not reassess whether there were any expired or existing leases, and initial direct costs for any existing leases.

Fair value measurements

Financial instruments include cash and cash equivalents, accounts receivable, and accounts payable. The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable, approximate fair market value because of the short maturity of those instruments.

**PACIFIC PUBLIC MEDIA
(KNKX)**

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 1 SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES
(continued)**

Support and revenue

Contribution revenue (listener support) is recognized when cash is received, goods and services are donated, or when an unconditional promise is made.

During the years ended May 31, 2023, and 2022, KNKX received \$121,215 and \$205,422 in contributions from related parties, respectively.

Grant revenue from the Corporation for Public Broadcasting represents unrestricted funding to support general operations. All grant revenue is recognized as revenue when the grant is awarded unless there are conditions placed on the grant by the donor. There were no outstanding conditional grants as of May 31, 2023, or 2022.

Underwriting fees are considered contracts with customers and are recognized in accordance with ASC Topic 606 and recognized when the related programming is aired on the radio or when digital sponsorships are delivered (i.e., the number of times the sponsorship appears in viewed internet pages) at the amount KNKX has the right to invoice. Revenue is recognized as a point in time. No significant judgements are necessary to determine the amount or timing of revenue recognition. Customers are billed at the end of each month for sponsorships aired during that month. Payment is generally due within 30 days of the invoice date. As of May 31, 2023, and 2022, KNKX had underwriting receivables of \$163,928 and \$230,871, respectively.

Underwriting fees received in advance are recognized as deferred underwriting revenue. In 2016, KNKX partially paid for the purchase of an asset through the promise of future underwriting (see Note 4). The deferred underwriting related to this agreement was \$306,895 and \$408,295 as of May 31, 2023, and 2022, respectively.

KNKX expenses incremental costs to obtain a contract (such as sales commissions, general and administrative costs, and costs that cannot be assigned to a performance obligation) when incurred because the amortization period would have been one year or less.

In-kind goods and services

Donated services and supplies are recognized at their estimated fair value in the financial statements. In-kind contributions of \$457,725 and \$502,642 were received from one donor for the years ended May 31, 2023, and 2022, respectively. In-kind donations primarily consist of donated advertising. In addition, many individuals volunteer their time and perform a variety of tasks for KNKX, but these services do not meet the criteria for recognition in the financial statements as contributed services.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Occupancy, depreciation, and amortization expenses are allocated on a square-footage basis. Expenses such as salaries and wages, benefits, payroll taxes, professional services, office expenses, information technology, insurance, and others are allocated to their functional areas based on estimated time and effort.

**PACIFIC PUBLIC MEDIA
(KNKX)**

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 1 SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES
(continued)**

Advertising costs

KNKX expenses advertising costs as incurred. Advertising costs for the years ended May 31, 2023, and 2022, were \$480,371 and \$565,307, respectively. Advertising expenses are primarily donated advertising and are recognized as in-kind contributions. During the years ended May 31, 2023, and 2022, donated advertising was \$457,725, and 502,642, respectively.

Income taxes

KNKX is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

Accounting pronouncements adopted

In 2023, management adopted the Financial Accounting Services Board's Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*, and additional ASUs issued to clarify and update the guidance in ASU 2016-02 (collectively, "ASC Topic 842"). ASC Topic 842 modifies lease accounting for lessees to increase transparency and comparability by recording lease assets and liabilities for operating leases and disclosing key information about leasing arrangements. Management adopted ASC Topic 842 using the modified retrospective transition method, under which amounts in prior periods presented herein were not restated. For contracts existing at the time of adoption, management elected the practical expedient and did not reassess (i) whether any are or contain leases, (ii) lease classification, and (iii) initial direct costs. For KNKX, the adoption of ASC Topic 842 resulted in the following as the of the Adoption Date:

Recognition of:

Operating lease right-of-use assets	2023 \$ 5,064,071
Operating lease liabilities	5,599,542

Derecognition of

Deferred rent expense	39,425
Tenant improvement liability	190,466

Management also adopted ASU 2020-07, *Not-for-Profit Entities (Topic 958) Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. As a result, contributed nonfinancial assets are now presented as a separate line item apart from the Listener support in the Statements of Activities. Additionally, the categories of recognized contributed nonfinancial assets, how the services were utilized, and the valuation techniques used to arrive at a fair value measurement are disclosed.

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NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 LIQUIDITY AND AVAILABILITY OF RESOURCES

KNKX strives to maintain liquid financial assets sufficient to cover 90 days of general expenditures. General expenditures include costs to run programs, fundraise, perform underwriting services, and other contractual obligations. Financial assets more than daily cash requirements can be invested in certificates of deposit, money market funds and other short-term investments.

KNKX manages its cash available to meet general expenditures following three guiding principles:

- Operating within a prudent range of financial soundness and stability,
- Maintaining adequate liquid assets, and
- Maintaining sufficient reserves to provide reasonable assurance that long-term mission fulfillment will continue to be met, ensuring the sustainability of the organization.

The following table reflects KNKX financial assets as of May 31, 2023, and 2022, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date because of contractual restrictions, donor restrictions, or internal board designations. KNKX has board-designated funds held for an operating reserve. If the need arises to utilize board-designated funds for liquidity purposes, these reserves could be drawn upon through board resolution.

	2023	2022
Financial Assets	\$ 2,760,237	\$ 6,738,016
Donor imposed restrictions	(540,826)	(1,242,523)
Operating reserve	(1,693,439)	(1,693,439)
Financial assets available	\$ 525,972	\$ 3,802,054

NOTE 3 PROMISES TO GIVE

Unconditional promises to give as of May 31 consist of the following:

	2023	2022
Receivable within one year	\$ 540,826	\$ 1,408,627
Receivable in one to five years	-	647,218
Receivables before allowance	540,826	2,055,845
Allowance of uncollectible accounts	(102,023)	(97,067)
Total promises to give receivable	\$ 438,803	\$ 1,958,778

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NOTES TO THE FINANCIAL STATEMENTS

NOTE 4 PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of May 31:

	2023	2022
Leasehold improvements	\$ 2,785,800	\$ 2,785,800
Property and equipment	1,048,744	1,048,744
	3,834,544	3,834,544
Less: Accumulated depreciation	(952,212)	(738,060)
Construction in progress	5,565,621	210,605
Total Property and equipment, net	\$ 8,447,953	\$ 3,307,089

Depreciation and amortization expense for land, buildings and equipment was \$214,154 and \$259,516 for the years ended December 31, 2023, and 2022, respectively. During the year ended May 31, 2023, KNKX obtained financing for the development of the Seattle Studio (see Note 6 for more information). The amount of capitalized interest was \$41,379 as of May 31, 2023.

NOTE 5 DEFERRED UNDERWRITING PLU

Under the terms of the Asset Purchase Agreement (the Agreement) with PLU in 2016 (see Note 1), KNKX paid \$7 million in cash and was obligated to provide \$1 million of underwriting services to PLU. Under the Agreement, up to \$100,000 of underwriting is to be provided per year for 10 years, with an allowed unused carryover amount of \$10,000 per year. Underwriting more than \$100,000 per year will reduce the following year's allocation. Underwriting performed under the Agreement during the year ended May 31, 2023, and 2022, was \$101,400 and \$100,560, respectively. The remaining deferred obligation is \$306,895 and \$408,925 as of May 31, 2023, and 2022, respectively.

NOTE 6 DEBTS

During the year ended May 31, 2021, KNKX obtained a loan to finance the purchase of software for \$389,881. The loan is interest free and payable in quarterly payments of \$32,490. The loan was fully repaid during the current year.

During the year ended May 31, 2023, KNKX obtained a \$2,000,000 line of credit secured against leasehold improvements and equipment, with an interest rate of 9.5%. Interest of \$41,379 was capitalized against the construction of the Seattle Studio. On June 22, 2023, the loan was refinanced at a rate of 7.97% secured against the Seattle Studio.

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NOTES TO THE FINANCIAL STATEMENTS

NOTE 7 LEASES

KNKX leases various equipment and facilities under long-term operating leases. Rental payments under these leases include base rental amounts for the terms of each lease. Variable costs for expenses which are not based on an index or rate, are determined based on actual expenses incurred by the lessor and passed to KNKX.

Operating and variable lease expenses for the year ended May 31, 2023, was:

Operating lease expense	\$ 873,322
Variable lease expense	3,248
Total	\$ 876,570

Aggregate remaining maturities of lease liabilities as of May 31, 2023:

2024	\$ 705,618
2025	711,574
2026	686,007
2027	702,287
2028	707,919
Thereafter	3,839,310
Total operating lease payments	7,352,715
Minus: Imputed interest	(1,753,173)
Total operating lease liabilities	\$ 5,599,542

NOTE 8 RETIREMENT PLAN

KNKX has a defined contribution 401(k) pension plan (the Plan) covering employees who meet prescribed service requirements. Contributions are made in accordance with the provisions of the Plan, which require employer contributions of 3% of total compensation and, in addition, a match of employee contributions of up to 5% of compensation. During the years ended May 31, 2023 and 2022, KNKX contributed \$246,444 and \$230,102, respectively, to the Plan.

NOTE 9 SUBSEQUENT EVENTS

Management evaluated all activities of KNKX through November 8th, 2023 (the issuance date of the financial statements) and concluded that no subsequent events have occurred that would require recognition in the financial statements.

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NOTES TO THE FINANCIAL STATEMENTS

NOTE 10 CHANGE IN ACCOUNTING PRINCIPLE

During the current year, management reassessed KNKX's accounting treatment of recurring gifts (sustainers) and determined that, recurring gifts represent a series of gifts given repeatedly on an open-ended schedule with no specific commitment from the donor and the donor can decide to end the arrangement at any time or pay indefinitely. As such, management does not believe that they meet the definition of a promise to give as defined in ASC 958-605, Not-for-Profit Entities: Revenue Recognition. The accounting principle was thus amended, and recurring gifts are now recorded when cash is received and not when the recurring gift is initiated.

Management deemed it impractical to retrospectively adjust for the change in accordance with ASC 250-10. The opening balance of donor restricted net assets was thus reduced by \$1,333,627 and a corresponding decrease in contributions receivable to account for the change in principle.

The prior year financial information has not been restated and is presented as reported in the 2022 audited financial statements, as comparative totals with the 2023 financial statements. Had a restatement been done, management estimates listener support would have been reduced by approximately \$105,744 and donor restricted net assets reduced by approximately \$1,227,883 in the prior year.