

BEETHOVEN, INC. AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
With Independent Auditor's Report
YEARS ENDED DECEMBER 31, 2016 AND 2015



BEETHOVEN, INC. AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT	2
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION December 31, 2016 and 2015	4
CONSOLIDATED STATEMENTS OF ACTIVITIES Years ended December 31, 2016 and 2015	5
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES Years ended December 31, 2016 and 2015	6 - 7
CONSOLIDATED STATEMENTS OF CASH FLOWS Years ended December 31, 2016 and 2015	8
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	9 - 16
SUPPLEMENTARY INFORMATION	
CLASSICAL 98.1 STATEMENTS OF ACTIVITIES Years ended December 31, 2016 and 2015	18

INDEPENDENT AUDITOR'S REPORT

June 22, 2017

Board of Directors
Beethoven, Inc.
Seattle, Washington

We have audited the accompanying consolidated financial statements of Beethoven, Inc. and Subsidiaries, which comprise the consolidated statements of financial position as of December 31, 2016 and 2015, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to in the first paragraph of this letter present fairly, in all material respects, the financial position of Beethoven, Inc. and Subsidiaries 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.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The Classical 98.1 statements of activities for the years ended December 31, 2016 and 2015 are presented for purposes of additional analysis, and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements.

The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Classical 98.1 statements of activities for the years ended December 31, 2016 and 2015 are fairly stated in all material respects in relation to the consolidated financial statements as a whole.



Jacobson Jarvis & Co, PLLC

BEETHOVEN, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents	\$ 672,026	\$ 622,963
Promises to give	58,070	159,360
Receivables, net of allowance for doubtful accounts of \$2,400	233,499	286,112
Prepaid expenses	27,440	25,859
Total Current Assets	<u>991,035</u>	<u>1,094,294</u>
Long Term Promises to Give	80	43,471
Property and Equipment, net	341,327	464,066
Goodwill	133,518	133,518
FCC License	1,425,647	1,425,647
Other Intangible Assets, net	919	1,252
	<u>\$ 2,892,526</u>	<u>\$ 3,162,248</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Accounts payable	\$ 46,441	\$ 55,297
Accrued payroll and other liabilities	132,389	101,954
Deferred revenue	18,119	-
Total Current Liabilities	<u>196,949</u>	<u>157,251</u>
Net Assets		
Unrestricted	2,536,514	2,835,645
Temporarily restricted	159,063	169,352
Total Net Assets	<u>2,695,577</u>	<u>3,004,997</u>
	<u>\$ 2,892,526</u>	<u>\$ 3,162,248</u>

BEETHOVEN, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Public Support and Revenue						
Listener support	\$ 2,881,725	\$ 75,000	\$ 2,956,725	\$ 2,963,365	\$ 133,015	\$ 3,096,380
Underwriting	542,667		542,667	783,746		783,746
Corporation for Public Broadcasting						
Community Service Grants	198,025	69,831	267,856	218,969	36,337	255,306
Other income	128		128	770		770
	<u>3,622,545</u>	<u>144,831</u>	<u>3,767,376</u>	<u>3,966,850</u>	<u>169,352</u>	<u>4,136,202</u>
Net Assets Released from Restrictions						
Purpose restrictions	155,120	(155,120)	-	305,254	(305,254)	-
Time restrictions	-	-	-	14,000	(14,000)	-
	<u>3,777,665</u>	<u>(10,289)</u>	<u>3,767,376</u>	<u>4,286,104</u>	<u>(149,902)</u>	<u>4,136,202</u>
Expenses						
Program services						
Programming and production	1,671,121		1,671,121	1,472,481		1,472,481
Broadcasting	597,536		597,536	613,528		613,528
Public information	242,932		242,932	312,033		312,033
	<u>2,511,589</u>		<u>2,511,589</u>	<u>2,398,042</u>		<u>2,398,042</u>
Administration	287,401		287,401	238,078		238,078
Underwriting	382,612		382,612	377,581		377,581
Listener support	895,194		895,194	817,360		817,360
	<u>1,565,207</u>		<u>1,565,207</u>	<u>1,433,019</u>		<u>1,433,019</u>
	<u>4,076,796</u>		<u>4,076,796</u>	<u>3,831,061</u>		<u>3,831,061</u>
Change in Net Assets	(299,131)	(10,289)	(309,420)	455,043	(149,902)	305,141
Net Assets - beginning of year	<u>2,835,645</u>	<u>169,352</u>	<u>3,004,997</u>	<u>2,380,602</u>	<u>319,254</u>	<u>2,699,856</u>
Net Assets - end of year	<u>\$ 2,536,514</u>	<u>\$ 159,063</u>	<u>\$ 2,695,577</u>	<u>\$ 2,835,645</u>	<u>\$ 169,352</u>	<u>\$ 3,004,997</u>

BEETHOVEN, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2016

	Programming & Production	Broadcasting	Public Information	Total Program Services	Administration	Underwriting	Listener Support	Total
Salaries	\$ 899,915	\$ 123,388	\$ 103,381	\$ 1,126,684	\$ 132,458	\$ 170,310	\$ 350,482	\$ 1,779,934
Payroll taxes	84,048	16,507	2,802	103,357	3,804	13,434	31,884	152,479
Employee benefits	88,759	15,281	430	104,470	28,043	7,272	34,541	174,326
Total Personnel Expenses	1,072,722	155,176	106,613	1,334,511	164,305	191,016	416,907	2,106,739
Lease agreements	106,598	190,502	26,600	323,700	26,640	26,640	26,638	403,618
Other fees for services	126,928	77,806	18,772	223,506	10,951	4,959	-	239,416
Advertising and promotion	115,277	-	7,635	122,912	1,081	-	73,696	197,689
Professional fundraising services	-	-	-	-	-	-	178,504	178,504
Other expenses	25,810	-	-	25,810	3,340	-	123,057	152,207
Depreciation and amortization	29,417	117,904	-	147,321	-	-	-	147,321
Underwriting services	-	-	-	-	-	125,757	-	125,757
Information technology	41,210	-	-	41,210	-	23,145	22,989	87,344
Utilities	27,718	23,911	6,956	58,585	6,956	6,956	6,956	79,453
Art marketing partnerships	-	-	75,000	75,000	-	-	-	75,000
Office supplies	29,411	-	-	29,411	1,394	829	40,277	71,911
Accounting	-	-	-	-	63,281	-	-	63,281
Insurance	39,010	9,753	-	48,763	-	-	-	48,763
Repair and maintenance	35,628	6,427	-	42,055	-	-	-	42,055
Conference, conventions, meetings	14,637	-	103	14,740	2,259	1,605	3,197	21,801
Business taxes and licenses	-	16,057	-	16,057	-	-	-	16,057
Travel and meetings	3,715	-	1,253	4,968	3,133	1,705	2,973	12,779
Legal fees	-	-	-	-	4,061	-	-	4,061
Program Acquisition Fee	3,040	-	-	3,040	-	-	-	3,040
Total Expenses	\$ 1,671,121	\$ 597,536	\$ 242,932	\$ 2,511,589	\$ 287,401	\$ 382,612	\$ 895,194	\$ 4,076,796

BEETHOVEN, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2015

	Programming & Production	Broadcasting	Public Information	Total Program Services	Administration	Underwriting	Listener Support	Total
Salaries	\$ 811,410	\$ 144,724	\$ 106,097	\$ 1,062,231	\$ 98,974	\$ 18,300	\$ 312,380	\$ 1,491,885
Payroll taxes	80,284	14,147	2,987	97,418	4,931	1,838	26,908	131,095
Employee benefits	83,356	17,885	5,169	106,410	26,277	-	25,525	158,212
Total Personnel Expenses	975,050	176,756	114,253	1,266,059	130,182	20,138	364,813	1,781,192
Lease agreements	139,400	195,264	21,425	356,089	9,197	-	9,197	374,483
Other fees for services	135,555	89,066	27,976	252,597	14,306	4,114	-	271,017
Advertising and promotion	-	-	63,427	63,427	731	-	57,160	121,318
Professional fundraising services	-	-	-	-	-	1,880	170,142	172,022
Other expenses	8,050	328	-	8,378	11,616	-	144,688	164,682
Depreciation and amortization	25,474	101,894	-	127,368	-	-	-	127,368
Underwriting services	-	-	-	-	-	336,616	-	336,616
Information technology	22,484	-	-	22,484	-	14,833	17,604	54,921
Utilities	39,041	20,154	8,366	67,561	4,183	-	4,183	75,927
Art marketing partnerships	-	-	75,000	75,000	-	-	-	75,000
Office supplies	27,193	-	-	27,193	1,265	-	39,081	67,539
Accounting	-	-	-	-	54,967	-	-	54,967
Insurance	42,653	10,663	-	53,316	-	-	-	53,316
Repair and maintenance	40,299	3,876	-	44,175	-	-	-	44,175
Conference, conventions, meetings	12,758	-	181	12,939	1,601	-	4,060	18,600
Business taxes and licenses	-	15,527	-	15,527	-	-	-	15,527
Travel and meetings	4,524	-	1,405	5,929	7,170	-	6,432	19,531
Legal fees	-	-	-	-	2,860	-	-	2,860
Total Expenses	\$ 1,472,481	\$ 613,528	\$ 312,033	\$ 2,398,042	\$ 238,078	\$ 377,581	\$ 817,360	\$ 3,831,061

BEETHOVEN, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities		
Cash received from:		
Listener support	\$ 2,986,209	\$ 3,008,347
Underwriters	617,389	754,925
Corporation for Public Broadcasting	264,091	253,351
Investment and other	128	770
Cash paid for:		
Personnel	(2,076,304)	(1,766,454)
Services and supplies	<u>(1,718,201)</u>	<u>(1,901,338)</u>
Net Cash Provided by Operating Activities	73,312	349,601
Cash Flows Used by Investing Activities		
Purchases of property and equipment	<u>(24,249)</u>	<u>(229,422)</u>
Changes in Cash and Cash Equivalents	49,063	120,179
Cash and cash equivalents - beginning of year	<u>622,963</u>	<u>502,784</u>
Cash and cash equivalents - end of year	<u>\$ 672,026</u>	<u>\$ 622,963</u>
Reconciliation of Change in Net Assets to Net Cash Flows from Operating Activities		
Change in net assets	\$ (309,420)	\$ 305,141
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	147,321	127,368
Decrease (increase) in		
Promises to give	144,681	(36,060)
Receivables	52,613	(19,595)
Prepaid expenses	(1,581)	(9,001)
(Decrease) increase in		
Accounts payable	(9,081)	(21,809)
Accrued payroll and other liabilities	30,435	14,738
Deferred revenue	<u>18,344</u>	<u>(11,181)</u>
Net Cash Provided by Operating Activities	<u>\$ 73,312</u>	<u>\$ 349,601</u>

BEETHOVEN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Beethoven, Inc., a nonprofit corporation, is a charitable trust whose purpose is to support Artsfund, Seattle Symphony Orchestra, and Seattle Opera Association and thereby advance the appreciation and performance of opera, symphonic music and chamber music in the Puget Sound area of Washington State. Beethoven, Inc. holds the stock of a wholly-owned subsidiary, Classic Radio. Classic Radio is the licensee of KING FM 98.1, a radio station that broadcasts classical music throughout western Washington and digitally via the Internet and mobile devices.

Classic Radio has a Programming and Operating Agreement with Classical 98.1, a nonprofit corporation. The purpose of Classical 98.1 is to support the broadcasting of classical music in western Washington and thereby further the education and involvement of the general public audience in classical music and advance the appreciation and performance of opera, symphonic music and chamber music, using a wide spectrum of technologies to deliver the highest quality experience.

Historical background

Classic Radio, Inc. (CRI), a for-profit corporation, was formed in August 1991 and purchased KING FM 98.1 in February 1992; at that time KING FM 98.1 held a commercial FCC license. In May 1995, the stock of CRI was transferred from private owners to Beethoven, Inc. In March 2010, the Board of Directors (the Board) approved a change in CRI's business model to pursue the restructuring of KING FM 98.1 from a commercial to noncommercial FCC licensee.

In March 2011, Classic Radio, a separate Washington State not-for-profit organization, was formed and Beethoven, Inc. contributed its investment in CRI to Classic Radio. In July 2010, Classical 98.1 was formed and applied for IRS exemption. Both not-for-profit entities were formed to facilitate the change in structure from a commercial to noncommercial model. In April 2011, the IRS exemption letter was received for Classical 98.1 and the Board approved complete liquidation of CRI, with all assets being distributed to Classic Radio upon dissolution on July 11, 2011.

Beginning May 2, 2011, KING FM 98.1 began operating as a noncommercial radio station supported by donations and Classical 98.1 began operating KING FM 98.1 pursuant to a Programming and Operating Agreement with Classic Radio. In July 2011, Classic Radio received FCC approval to convert its operating license to a noncommercial license, completing the transition from a for-profit commercial radio station to a not-for-profit listener supported radio station.

Principles of consolidation

The accompanying financial statements include the accounts of Beethoven, Inc. and all of its wholly-owned subsidiaries.

BEETHOVEN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inter-entity transactions and balances have been eliminated in consolidation. The consolidated entity is referred to as Classical KING FM 98.1 in the notes to the financial statements.

Federal income taxes

The Internal Revenue Service has recognized Beethoven, Inc. and Classical 98.1 as exempt from federal income taxes under provision of Section 501(a) of the Internal Revenue Code as entities described in Section 501(c)(3) and not as private foundations.

Income taxes are provided for the tax effects of transactions related Classic Radio's operations and consist of taxes currently due or refundable and deferred taxes. Deferred taxes represent the tax effect of temporary differences between the financial reporting basis and tax basis of assets and liabilities. These basis differences primarily relate to fixed assets, goodwill, FCC license, and certain accrued liabilities.

Basis of presentation

In accordance with financial accounting standards, Classical KING FM 98.1 reports 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. The net assets of Classical KING FM 98.1 are classified as follows:

Unrestricted net assets are available without restriction for support of Classical KING FM 98.1's operations.

Temporarily restricted net assets are restricted to be used for certain purposes or future periods by Classical KING FM 98.1. Temporarily restricted net assets as of December 31, are as follows:

	<u>2016</u>	<u>2015</u>
Corporation for Public Broadcasting		
- Specified Programming	\$ 18,168	\$ 36,337
Northwest Focus/Northwest Focus Live	140,895	107,895
Tateuchi Center Awareness	-	25,120
	<u>\$ 159,063</u>	<u>\$ 169,352</u>

Permanently restricted net assets are endowment gifts given with the intent that the principal will be maintained intact in perpetuity, and the income may be used for current operations. Classical KING FM 98.1 had no permanently restricted net assets as of December 31, 2016 or 2015.

BEETHOVEN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value measurements

In accordance with financial accounting standards, a three-tiered hierarchy of input levels is used for measuring fair value. Financial accounting standards defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Valuation techniques utilized to determine fair value are consistently applied. The three tiers of inputs used for fair value measurements are as follows:

Level 1: Fair values are based on quoted prices in active markets for identical assets and liabilities.

Level 2: Fair values are based on observable inputs that include: quoted market prices for similar assets or liabilities; quoted market prices that are not in an active market; or other inputs that are observable in the market and can be corroborated by observable market data for substantially the full term of the assets.

Level 3: Fair values are calculated by the use of pricing models and/or discounted cash flow methodologies, and may require significant management judgment or estimation. These methodologies may result in a significant portion of the fair value being derived from unobservable data.

There were no assets measured at fair value on a recurring basis as of December 31, 2016 or 2015. Assets and liabilities carried at fair value on a nonrecurring basis using level 2 inputs generally include donated goods and services. Long-term promises to give are valued on a nonrecurring basis using the net present value of future cash flows which is a level 3 input. Classical KING FM 98.1 also uses fair value concepts to test various long-lived assets for impairment.

Cash and cash equivalents

Cash and cash equivalents in the bank accounts are interest bearing and, at times, may exceed federally insured limits. Classical KING FM 98.1 has not experienced any losses in such accounts and believes they are not exposed to any significant related credit risk.

Promises to give

Promises to give that are expected to be collected within one year are recorded at net realizable value. Pledges due in more than one year are reflected at the present value of estimated future cash flows. Amortization of the discounts is included in contribution revenue.

BEETHOVEN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Conditional contributions are not included as support until the conditions are substantially met. Unconditional promises to give as of December 31 consist of the following:

	<u>2016</u>	<u>2015</u>
Receivable in less than one year	\$ 58,070	\$ 159,360
Receivable in one to five years	80	43,471
	<u>\$ 58,150</u>	<u>\$ 202,831</u>

Discounts on long-term promises to give are considered immaterial and uncollectible promises are expected to be insignificant.

Receivables

Accounts receivable are stated at unpaid balances on underwriting contracts, less an allowance for doubtful accounts. Classical King FM 98.1 adopted a policy of providing for losses on accounts receivable using the allowance method. The allowance is based on experience, third-party contracts, and other circumstances which may affect the ability of the underwriters to meet their obligations. Receivables are written off as a charge to the allowance for doubtful accounts once all reasonable efforts to collect have been exhausted.

Fixed assets, depreciation, and amortization

Additions, improvements, and expenditures of \$1,000 or greater that significantly extend the life of an asset are capitalized at cost. Depreciation is computed using the straight line method over the useful lives of assets ranging from 5 to 7 years. Amortization is computed using the straight-line method over 3 years for software and the shorter of the useful life or the remaining lease term (including expected renewals) for leasehold improvements (20 years). Property and equipment consist of the following as of December 31:

	<u>2016</u>	<u>2015</u>
Buildings and leasehold improvements	\$ 1,102,258	\$ 1,102,258
Towers, antennae, and transmitter equipment	1,030,086	1,021,929
Studio technical equipment	267,467	267,236
Program production material	44,699	44,699
Furniture and office equipment	433,274	429,752
	<u>2,877,784</u>	<u>2,865,874</u>
Less: Accumulated depreciation	<u>(2,536,457)</u>	<u>(2,401,808)</u>
	<u>\$ 341,327</u>	<u>\$ 464,066</u>

BEETHOVEN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill and other intangible assets

Classic Radio acquired certain intangible assets from Classic Radio, Inc. in connection with the purchase of KING FM 98.1 in 1992. The FCC license is considered to have an indefinite life; however, Classic Radio must renew the license with the FCC every 7 years. The license was renewed in 2014. Goodwill and the FCC license are tested annually for impairment and, if impaired, are written down to fair value.

Finite-lived intangible assets are amortized over the estimated useful lives ranging from 1 to 25 years, and are not expected to have any residual value. Finite-lived intangible assets are also tested annually for impairment. Goodwill and other intangible assets were not impaired as of December 31, 2016 or 2015 and accordingly no write down is included in the consolidated statements of activities for the years then ended.

Underwriting

Underwriting fees are considered exchange transactions and are recognized as revenue when credits are aired or delivered digitally. Underwriting fees paid in advance of credits aired or delivered digitally are reflected as deferred revenue until the credits are aired or delivered.

Restricted and unrestricted support

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the year in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions.

In-kind goods and services

Contributed materials have been recorded at their fair value at date of donation. Donated services are recorded as in-kind contributions and are recognized as revenue at estimated values at the date of receipt if they (a) create or enhance non-financial assets, or (b) require specialized skills and would need to be purchased if not provided by donation. Corresponding expenses are recognized as the assets and services are utilized.

Advertising costs

Classical King FM 98.1 expenses advertising costs as incurred. The consolidated statements of activities include \$127,219 and \$57,129 in advertising costs for the years ended December 31, 2016 and 2015, respectively.

BEETHOVEN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Art marketing partnerships

As noted above, one of the purposes of Classical 98.1 is to further the education and involvement of the general public audience in classical music and advance the appreciation and performance of opera, symphonic music and chamber music. As such, Classical 98.1 entered into marketing partnerships with Artsfund, Seattle Symphony Orchestra, and Seattle Opera Association in the amount of \$25,000 each to further the education mission of each organization and develop a further awareness of Classical 98.1's mission.

Functional allocation of expenses

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

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.

NOTE B - UNDERWRITING

During March 2011, Classical KING FM 98.1 entered into an agreement with a third party through June 30, 2016, which called for the third party to provide administration, oversight, collection and financial reporting of corporate sponsorships. Classical KING FM 98.1 paid a variable commission based on the revenue earned from corporate sponsorships. Commission expense paid by Classical KING FM 98.1 under the contract was \$92,941 and \$269,861 for the years ended December 31, 2016 and 2015, of which \$0 and \$21,891 were included in accounts payable at December 31, 2016 and 2015, respectively.

NOTE C - LINE OF CREDIT

Classical 98.1 has a \$50,000 revolving line of credit agreement with Pacific Continental Bank. The line of credit bears interest at 1% over prime rate but not less than 5.5%, expires on September 1, 2017, and is secured by Classical 98.1's and Classic Radio's assets. There were no outstanding borrowings on the line of credit at December 31, 2016 or 2015.

BEETHOVEN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE D – PROFIT SHARING AND 401(k) PLAN

Classical KING FM 98.1 has a profit sharing and 401(k) plan covering substantially all full-time employees employed more than one year. Classical KING FM 98.1 matches 100% of participant contributions up to 3% of eligible compensation, plus 50% of participant contributions over 3%, but not more than 5% of eligible compensation. This expense totaled \$41,338 and \$38,517 for the years ended December 31, 2016 and 2015, respectively. Additionally, Classical KING FM 98.1 may elect to contribute a discretionary amount to the profit sharing plan. Classical KING FM 98.1 did not make a profit sharing contribution for 2016 or 2015.

NOTE E – LEASE COMMITMENTS

Classic Radio leases tower sites from a single entity under terms of operating leases expiring in various years through 2020. The main tower site is at West Tiger Mt. (WTM) and expires on December 31, 2017. The WTM lease has one ten-year renewable period. The backup tower site is at Cougar Mt. (CM). CM's original term was ten years starting in 2000. CM is currently on the renewal term of ten years, which will expire on June 30, 2020.

Classical KING FM 98.1 leases its facilities from Artsfund, a related party, under a lease with an initial 10-year term which commenced on March 1, 2000. The lease was renewable for two five-year periods. As of March 1, 2015, Classical KING FM 98.1 entered into the second five-year lease renewal expiring February 28, 2020. As of March 1, 2016, the lease was modified to include additional office space. Future minimum lease payments are as follows:

	<u>Facilities</u>	<u>Tower Sites</u>	<u>Total</u>
2017	\$ 191,887	\$ 189,570	\$ 381,457
2018	195,589	90,840	286,429
2019	199,291	91,292	290,583
2020	<u>33,318</u>	<u>45,646</u>	<u>78,964</u>
Total	<u>\$ 620,085</u>	<u>\$ 417,348</u>	<u>\$ 1,037,433</u>

Lease expense for the tower sites totaled \$184,847 and \$180,281 for the years ended December 31, 2016 and 2015, respectively, and lease expense for the facilities totaled \$185,006 and \$158,320 for the years ended December 31, 2016 and 2015, respectively.

BEETHOVEN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE F - FEDERAL INCOME TAXES

Deferred income taxes resulted primarily from the 2011 net operating loss carry forward as well as the temporary differences between the financial and tax basis of the intangible assets, property and equipment, accrued liabilities, and charitable contributions. Management has provided a 100% valuation allowance on the net deferred tax assets at December 31, 2016 that would result from recognition of the benefit of the deferred tax assets due to the uncertainty of realizing any future taxable earnings.

The valuation allowance decreased by \$60,370 in 2016, representing the change in potential tax benefits relating to differences between financial and tax basis accrued liabilities at December 31, 2016. As of December 31, 2016, there were no net current deferred income tax assets or liabilities and long-term deferred income tax assets and liabilities consisted of the following:

Non-current deferred balances:	
Non-current deferred income tax asset	\$ 513,400
Non-current deferred income tax liability	(482,270)
Less allowance for uncollectable	
non-current deferred income tax asset	<u>(31,130)</u>
Net non-current deferred income tax liability	<u>\$ -</u>

NOTE G - SUBSEQUENT EVENTS

Management has evaluated events occurring subsequent to December 31, 2016 through June 22, 2017, which is the date the financial statements were available to be issued and has recognized in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at December 31, 2016, including the estimates inherent in the processing of financial statements.

SUPPLEMENTARY INFORMATION

CLASSICAL 98.1

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Public Support and Revenue						
Listener support	\$ 2,881,725	\$ 75,000	\$ 2,956,725	\$ 2,963,365	\$ 133,015	\$ 3,096,380
Underwriting	542,667		542,667	783,746		783,746
Corporation for Public Broadcasting						
Community Service Grants	198,025	69,831	267,856	218,969	36,337	255,306
Other income	187		187	770		770
	<u>3,622,604</u>	<u>144,831</u>	<u>3,767,435</u>	<u>3,966,850</u>	<u>169,352</u>	<u>4,136,202</u>
Net Assets Released from Restrictions						
Purpose restrictions	155,120	(155,120)	-	305,254	(305,254)	-
Time restrictions	-	-	-	14,000	(14,000)	-
Total Public Support, Revenue, and Other Support	<u>3,777,724</u>	<u>(10,289)</u>	<u>3,767,435</u>	<u>4,286,104</u>	<u>(149,902)</u>	<u>4,136,202</u>
Expenses						
Program Services						
Programming, production, and broadcasting	2,334,030		2,334,030	2,185,613		2,185,613
Public information	209,376		209,376	282,108		282,108
Total Program Services	2,543,406		2,543,406	2,467,721		2,467,721
Administration	212,279		212,279	186,797		186,797
Underwriting	349,016		349,016	377,581		377,581
Listener support	861,600		861,600	803,978		803,978
Total Expenses	<u>3,966,301</u>		<u>3,966,301</u>	<u>3,836,077</u>		<u>3,836,077</u>
Change in Net Assets	<u>\$ (188,577)</u>	<u>\$ (10,289)</u>	<u>\$ (198,866)</u>	<u>\$ 450,027</u>	<u>\$ (149,902)</u>	<u>\$ 300,125</u>