BEETHOVEN, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
With Independent Auditor's Report

YEARS ENDED DECEMBER 31, 2017 AND 2016

CLASSICAL

KING FM 98.1

www.KING.org

BEETHOVEN, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

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INDEPENDENT AUDITOR'S REPORT

May 24, 2018

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, 2017 and 2016, 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.

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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, 2017 and 2016, 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, 2017 and 2016 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, 2017 and 2016 are fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Jacobson Jarvis & Co, PLLC

Jacobson Jarvis & Co, PLLC

BEETHOVEN, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2017 AND 2016

	2017	2016
ASSETS		
Current Assets		
Cash and cash equivalents	$ 497,041	$ 672,026
Promises to give	31,500	58,070
Receivables, net of allowance for doubtful accounts of $2,400	262,420	233,499
Prepaid expenses	28,192	27,440
Total Current Assets	819,153	991,035
Long Term Promises to Give	-	80
Property and Equipment, net	244,572	341,327
Goodwill	133,518	133,518
FCC License	1,425,647	1,425,647
Other Intangible Assets, net	586	919
	$ 2,623,476	$ 2,892,526
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	$ 78,724	$ 46,441
Accrued payroll and other liabilities	120,750	132,389
Deferred revenue	17,023	18,119
Total Current Liabilities	216,497	196,949
Net Assets		
Unrestricted	2,249,235	2,536,514
Temporarily restricted	157,744	159,063
Total Net Assets	2,406,979	2,695,577
	$ 2,623,476	$ 2,892,526

See notes to consolidated financial statements.

BEETHOVEN, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Public Support and Revenue						
Listener support	$ 2,982,991	$ 91,460	$ 3,074,451	$ 2,881,725	$ 75,000	$ 2,956,725
Underwriting	489,747		489,747	542,667		542,667
Corporation for Public Broadcasting						
Community Service Grants	169,758	60,361	230,119	198,025	69,831	267,856
Travel club	123,000		123,000	-		-
Other income	72		72	128		128
	3,765,568	151,821	3,917,389	3,622,545	144,831	3,767,376
Net Assets Released from Restrictions						
Purpose restrictions	153,140	(153,140)	-	155,120	(155,120)	-
Time restrictions	-	-	-	-	-	-
Total Public Support, Revenue, and Other Support	3,918,708	(1,319)	3,917,389	3,777,665	(10,289)	3,767,376
Expenses						
Program services						
Programming and production	1,661,772		1,661,772	1,671,121		1,671,121
Broadcasting	595,375		595,375	597,536		597,536
Public information	336,921		336,921	242,932		242,932
Total Program Services	2,594,068		2,594,068	2,511,589		2,511,589
Administration	314,638		314,638	287,401		287,401
Underwriting	294,278		294,278	382,612		382,612
Listener support	1,003,003		1,003,003	895,194		895,194
Total Supporting Services	1,611,919		1,611,919	1,565,207		1,565,207
Total Expenses	4,205,987		4,205,987	4,076,796		4,076,796
Change in Net Assets	(287,279)	(1,319)	(288,598)	(299,131)	(10,289)	(309,420)
Net Assets - beginning of year	2,536,514	159,063	2,695,577	2,835,645	169,352	3,004,997
Net Assets - end of year	$ 2,249,235	$ 157,744	$ 2,406,979	$ 2,536,514	$ 159,063	$ 2,695,577

See notes to consolidated financial statements.

BEETHOVEN, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2017

	Programming & Production	Broadcasting	Public Information	Total Program Services	Administration	Underwriting	Listener Support	Total
Salaries	$ 965,601	$ 132,414	$ 116,950	$ 1,214,965	$ 139,056	$ 132,312	$ 470,535	$ 1,956,868
Payroll taxes	87,204	14,935	7,307	109,446	7,193	13,985	36,399	167,023
Employee benefits	76,621	15,342	13,622	105,585	33,749	5,225	34,812	179,371
Total Personnel Expenses	1,129,426	162,691	137,879	1,429,996	179,998	151,522	541,746	2,303,262
Lease agreements	100,071	192,150	30,200	322,421	30,200	30,200	30,200	413,021
Other fees for services	82,949	82,355	71,094	236,398	8,215	2,000	-	246,613
Professional fundraising services	-	-	-	-	-	1,717	200,648	202,365
Advertising and promotion	96,383	-	11,894	108,277	2,668	-	72,972	183,917
Depreciation and amortization	24,383	97,530	-	121,913	-	-	-	121,913
Information technology	44,436	-	-	44,436	-	28,872	33,940	107,248
Other expenses	17,773	-	-	17,773	2,244	-	73,991	94,008
Utilities	26,283	27,598	8,027	61,908	8,027	8,027	8,027	85,989
Art marketing partnerships	-	-	75,000	75,000	-	-	-	75,000
Underwriting services	-	-	-	-	-	71,615	-	71,615
Office supplies	26,089	-	-	26,089	1,178	250	36,648	64,165
Accounting	-	-	-	-	62,821	-	-	62,821
Repair and maintenance	52,618	5,846	-	58,464	-	-	-	58,464
Insurance	38,813	9,703	-	48,516	-	-	-	48,516
Conference, conventions, meetings	18,034	1,862	167	20,063	2,887	75	1,260	24,285
Travel and meetings	4,514	-	2,660	7,174	6,479	-	3,571	17,224
Business taxes and licenses	-	15,640	-	15,640	-	-	-	15,640
Legal fees	-	-	-	-	9,921	-	-	9,921
Program Acquisition Fee	-	-	-	-	-	-	-	-
Total Expenses	$ 1,661,772	$ 595,375	$ 336,921	$ 2,594,068	$ 314,638	$ 294,278	$ 1,003,003	$ 4,205,987

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
Professional fundraising services	-	-	-	-	-	-	178,504	178,504
Advertising and promotion	115,277	-	7,635	122,912	1,081	-	73,696	197,689
Depreciation and amortization	29,417	117,904	-	147,321	-	-	-	147,321
Information technology	41,210	-	-	41,210	-	23,145	22,989	87,344
Other expenses	25,810	-	-	25,810	3,340	-	123,057	152,207
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
Underwriting services	-	-	-	-	-	125,757	-	125,757
Office supplies	29,411	-	-	29,411	1,394	829	40,277	71,911
Accounting	-	-	-	-	63,281	-	-	63,281
Repair and maintenance	35,628	6,427	-	42,055	-	-	-	42,055
Insurance	39,010	9,753	-	48,763	-	-	-	48,763
Conference, conventions, meetings	14,637	-	103	14,740	2,259	1,605	3,197	21,801
Travel and meetings	3,715	-	1,253	4,968	3,133	1,705	2,973	12,779
Business taxes and licenses	-	16,057	-	16,057	-	-	-	16,057
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

See notes to consolidated financial statements.

BEETHOVEN, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
Cash Flows from Operating Activities		
Cash received from:		
Listener support	$ 3,004,718	$ 2,986,209
Underwriters	448,409	617,389
Corporation for Public Broadcasting	241,440	264,091
Other	123,202	128
Cash paid for:		
Personnel	(2,314,901)	(2,076,304)
Services and supplies	(1,671,532)	(1,718,201)
Net Cash (Used) Provided by Operating Activities	(168,664)	73,312
Cash Flows Used by Investing Activities		
Purchases of property and equipment	(6,321)	(24,249)
Changes in Cash and Cash Equivalents	(174,985)	49,063
Cash and cash equivalents - beginning of year	672,026	622,963
Cash and cash equivalents - end of year	$ 497,041	$ 672,026
Reconciliation of Change in Net Assets to Net Cash Flows from Operating Activities		
Change in net assets	$ (288,598)	$ (309,420)
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities		
Depreciation and amortization	121,913	147,321
Loss on disposal of equipment	130	-
Decrease (increase) in		
Promises to give	26,650	144,681
Receivables	(28,921)	52,613
Prepaid expenses	(752)	(1,581)
Increase (decrease) in		
Accounts payable	13,649	(9,081)
Accrued payroll and other liabilities	(11,639)	30,435
Deferred revenue	(1,096)	18,344
Net Cash (Used) Provided by Operating Activities	$ (168,664)	$ 73,312

See notes to consolidated financial statements.

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.

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:

	2017	2016
Corporation for Public Broadcasting - Specified Programming	$ 18,108	$ 18,168
Northwest Focus/Northwest Focus Live	96,176	140,895
Grand Piano Hour	25,000	-
Other restricted	18,460	-
	$ 157,744	$ 159,063

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, 2017 or 2016.

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, 2017 or 2016. 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.

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:

	2017	2016
Receivable in less than one year	$ 31,500	$ 58,070
Receivable in one to five years	-	80
	$ 31,500	$ 58,150

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:

	2017	2016
Buildings and leasehold improvements	$ 1,102,258	$ 1,102,258
Towers, antennae, and transmitter equipment	1,030,086	1,030,086
Studio technical equipment	267,467	267,467
Program production material	44,699	44,699
Furniture and office equipment	444,350	433,274
	2,888,860	2,877,784
Less: Accumulated depreciation	(2,644,288)	(2,536,457)
	$ 244,572	$ 341,327

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, 2017 or 2016 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 $106,657 and $127,219, respectively, in advertising costs for the years ended December 31, 2017 and 2016.

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 for the year ended December 31, 2016, of which $0 was included in accounts payable at December 31, 2016.

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, 2018, 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, 2017 or 2016.

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 $38,962 and $41,338, respectively, for the years ended December 31, 2017 and 2016.

NOTE E – LEASE COMMITMENTS

Classic Radio leases tower sites from a single entity under terms of operating leases expiring in various years through 2027. The main tower site is at West Tiger Mt. (WTM). The initial lease term expired on December 31, 2017 and was extended through the ten-year renewable period which expires on December 31, 2027. 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:

	Facilities	Tower Sites	Total
2018	$ 195,589	$ 194,454	$ 390,043
2019	199,291	199,051	398,342
2020	33,318	157,715	191,033
2021		116,552	116,552
2022		121,214	121,214
Thereafter		682,787	682,787
Total	$ 428,198	$ 1,471,773	$ 1,899,971

Lease expense for the tower sites totaled $189,570 and $184,847, respectively, for the years ended December 31, 2017 and 2016, and lease expense for the facilities totaled $191,887 and $185,006, respectively, for the years ended December 31, 2017 and 2016.

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, 2017 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 increased by $16,880 in 2017, representing the change in potential tax benefits relating to differences between financial and tax basis accrued liabilities at December 31, 2017. As of December 31, 2017, 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	$ 348,560
Non-current deferred income tax liability	(300,550)
Less allowance for uncollectable	
non-current deferred income tax asset	(48,010)
Net non-current deferred income tax liability	$ -

NOTE G - SUBSEQUENT EVENTS

Management has evaluated events occurring subsequent to December 31, 2017 through May 24, 2018, 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, 2017, including the estimates inherent in the processing of financial statements.

SUPPLEMENTARY INFORMATION

CLASSICAL 98.1

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Public Support and Revenue						
Listener support	$ 2,982,991	$ 91,460	$ 3,074,451	$ 2,881,725	$ 75,000	$ 2,956,725
Underwriting	489,747		489,747	542,667		542,667
Corporation for Public Broadcasting						
Community Service Grants	169,758	60,361	230,119	198,025	69,831	267,856
Other income	123,202		123,202	187		187
	3,765,698	151,821	3,917,519	3,622,604	144,831	3,767,435
Net Assets Released from Restrictions						
Purpose restrictions	153,140	(153,140)	-	155,120	(155,120)	-
Time restrictions	-	-	-	-	-	-
Total Public Support, Revenue, and Other Support	3,918,838	(1,319)	3,917,519	3,777,724	(10,289)	3,767,435
Expenses						
Program services						
Programming, production, and broadcasting	2,319,604		2,319,604	2,334,030		2,334,030
Public information	298,694		298,694	209,376		209,376
Total Program Services	2,618,298		2,618,298	2,543,406		2,543,406
Administration	225,508		225,508	212,279		212,279
Underwriting	254,334		254,334	349,016		349,016
Listener support	966,493		966,493	861,600		861,600
Total Expenses	4,064,633		4,064,633	3,966,301		3,966,301
Change in Net Assets	$ (145,795)	$ (1,319)	$ (147,114)	$ (188,577)	$ (10,289)	$ (198,866)

See notes to consolidated financial statements.