

BEETHOVEN, INC. AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
With Independent Auditor's Report
YEARS ENDED DECEMBER 31, 2020 AND 2019



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CONSOLIDATED FINANCIAL STATEMENTS
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INDEPENDENT AUDITOR'S REPORT

April 13, 2021

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, 2020 and 2019, 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, 2020 and 2019, 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, 2020 and 2019 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, 2020 and 2019 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, 2020 AND 2019

| | <u>2020</u> | <u>2019</u> |
|--|---------------------|---------------------|
| <u>ASSETS</u> | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 3,493,333 | \$ 2,128,248 |
| Investments | 286,455 | 262,936 |
| Promises to give | 362,386 | 741,467 |
| Receivables, net of allowance for doubtful accounts of \$2,400 | 200,981 | 253,989 |
| Prepaid expenses | 19,903 | 37,861 |
| Total Current Assets | <u>4,363,058</u> | <u>3,424,501</u> |
| Long Term Promises to Give | 288,750 | 466,166 |
| Property and Equipment, net | 2,376,012 | 1,995,617 |
| Goodwill | 133,518 | 133,518 |
| FCC License | <u>1,425,647</u> | <u>1,425,647</u> |
| | <u>\$ 8,586,985</u> | <u>\$ 7,445,449</u> |
| <u>LIABILITIES AND NET ASSETS</u> | | |
| Current Liabilities | | |
| Accounts payable | \$ 59,002 | \$ 42,422 |
| Accrued payroll and other liabilities | 109,628 | 82,482 |
| Deferred revenue | 1,510 | 8,690 |
| Total Current Liabilities | <u>170,140</u> | <u>133,594</u> |
| Deferred Rent Expense | <u>25,044</u> | <u>-</u> |
| Total Liabilities | <u>195,184</u> | <u>133,594</u> |
| Net Assets | | |
| Without donor restrictions | 8,124,972 | 4,187,684 |
| With donor restrictions | 266,829 | 3,124,171 |
| Total Net Assets | <u>8,391,801</u> | <u>7,311,855</u> |
| | <u>\$ 8,586,985</u> | <u>\$ 7,445,449</u> |

See notes to consolidated financial statements.

BEETHOVEN, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2020 AND 2019

| | 2020 | | | 2019 | | |
|--|-------------------------------|----------------------------|---------------------|-------------------------------|----------------------------|---------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total | Without Donor Restrictions | With Donor Restrictions | Total |
| Public Support and Revenue | | | | | | |
| Listener support | \$ 4,412,355 | \$ - | \$ 4,412,355 | \$ 5,001,701 | \$ 2,172,937 | \$ 7,174,638 |
| Underwriting | 145,395 | - | 145,395 | 491,383 | - | 491,383 |
| Corporation for Public Broadcasting | | | | | | |
| Community Service Grants | 416,346 | - | 416,346 | 203,926 | 74,168 | 278,094 |
| PPP loan forgiveness | 316,810 | - | 316,810 | - | - | - |
| Travel club | - | - | - | 147,000 | - | 147,000 |
| Investment and other income | 17,137 | - | 17,137 | 2,516 | - | 2,516 |
| | <u>5,308,043</u> | <u>-</u> | <u>5,308,043</u> | <u>5,846,526</u> | <u>2,247,105</u> | <u>8,093,631</u> |
| Net Assets Released from Restrictions | | | | | | |
| Purpose restrictions | 2,857,342 | (2,857,342) | - | 124,152 | (124,152) | - |
| Time restrictions | - | - | - | - | - | - |
| Total Public Support, Revenue, and Other Support | <u>8,165,385</u> | <u>(2,857,342)</u> | <u>5,308,043</u> | <u>5,970,678</u> | <u>2,122,953</u> | <u>8,093,631</u> |
| Expenses | | | | | | |
| Program services | | | | | | |
| Programming and production | 2,030,436 | - | 2,030,436 | 1,531,803 | - | 1,531,803 |
| Broadcasting | 498,765 | - | 498,765 | 619,342 | - | 619,342 |
| Public information | 29,837 | - | 29,837 | 64,938 | - | 64,938 |
| Total Program Services | <u>2,559,038</u> | <u>-</u> | <u>2,559,038</u> | <u>2,216,083</u> | <u>-</u> | <u>2,216,083</u> |
| Administration | 416,374 | - | 416,374 | 384,741 | - | 384,741 |
| Underwriting | 234,121 | - | 234,121 | 269,317 | - | 269,317 |
| Listener support | 1,018,564 | - | 1,018,564 | 1,187,474 | - | 1,187,474 |
| Total Supporting Services | <u>1,669,059</u> | <u>-</u> | <u>1,669,059</u> | <u>1,841,532</u> | <u>-</u> | <u>1,841,532</u> |
| Total Expenses | <u>4,228,097</u> | <u>-</u> | <u>4,228,097</u> | <u>4,057,615</u> | <u>-</u> | <u>4,057,615</u> |
| Change in Net Assets | 3,937,288 | (2,857,342) | 1,079,946 | 1,913,063 | 2,122,953 | 4,036,016 |
| Net Assets - beginning of year | <u>4,187,684</u> | <u>3,124,171</u> | <u>7,311,855</u> | <u>2,274,621</u> | <u>1,001,218</u> | <u>3,275,839</u> |
| Net Assets - end of year | <u>\$ 8,124,972</u> | <u>\$ 266,829</u> | <u>\$ 8,391,801</u> | <u>\$ 4,187,684</u> | <u>\$ 3,124,171</u> | <u>\$ 7,311,855</u> |

BEETHOVEN, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2020

| | Programming & Production | Broadcasting | Public Information | Total Program Services | Administration | Underwriting | Listener Support | Total |
|-----------------------------------|-----------------------------|--------------|-----------------------|------------------------------|----------------|--------------|---------------------|--------------|
| Salaries | \$ 974,115 | \$ 84,046 | \$ 15,087 | \$ 1,073,248 | \$ 219,597 | \$ 116,450 | \$ 356,104 | \$ 1,765,399 |
| Payroll taxes | 82,021 | 11,577 | 1,259 | 94,857 | 15,237 | 9,369 | 31,063 | 150,526 |
| Employee benefits | 92,861 | 7,897 | - | 100,758 | 19,199 | 13,761 | 42,291 | 176,009 |
| Total Personnel Expenses | 1,148,997 | 103,520 | 16,346 | 1,268,863 | 254,033 | 139,580 | 429,458 | 2,091,934 |
| Lease agreements | 150,829 | 216,585 | 11,775 | 379,189 | 23,147 | 23,147 | 23,147 | 448,630 |
| Depreciation and amortization | 246,053 | 65,613 | - | 311,666 | 16,403 | - | - | 328,069 |
| Other fees for services | 226,500 | 14,865 | - | 241,365 | 43,463 | - | 7,000 | 291,828 |
| Advertising and promotion | 76,871 | - | - | 76,871 | 2,567 | - | 117,696 | 197,134 |
| Professional fundraising services | - | - | - | - | - | - | 171,055 | 171,055 |
| Information technology | 28,619 | - | - | 28,619 | - | 41,076 | 36,408 | 106,103 |
| Other expenses | 15,733 | - | - | 15,733 | 6,081 | 252 | 80,852 | 102,918 |
| Campaign expense | - | - | - | - | - | - | 92,597 | 92,597 |
| Office supplies | 28,244 | - | - | 28,244 | 1,832 | 682 | 54,979 | 85,737 |
| Utilities | 22,311 | 44,904 | 1,716 | 68,931 | 3,433 | 3,433 | 3,433 | 79,230 |
| Insurance | 24,620 | 25,539 | - | 50,159 | 13,063 | - | - | 63,222 |
| Accounting | - | 8,056 | - | 8,056 | 49,077 | - | - | 57,133 |
| Repair and maintenance | 38,595 | 16,155 | - | 54,750 | - | - | - | 54,750 |
| Underwriting services | - | - | - | - | - | 25,951 | - | 25,951 |
| Conference, conventions, meetings | 11,803 | - | - | 11,803 | 694 | - | 1,389 | 13,886 |
| Business taxes and licenses | 10,830 | - | - | 10,830 | - | - | - | 10,830 |
| Legal fees | - | 3,528 | - | 3,528 | 1,811 | - | - | 5,339 |
| Travel and meetings | 431 | - | - | 431 | 770 | - | 550 | 1,751 |
| Total Expenses | \$ 2,030,436 | \$ 498,765 | \$ 29,837 | \$ 2,559,038 | \$ 416,374 | \$ 234,121 | \$ 1,018,564 | \$ 4,228,097 |

BEETHOVEN, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2019

| | Programming & Production | Broadcasting | Public Information | Total Program Services | Administration | Underwriting | Listener Support | Total |
|-----------------------------------|-----------------------------|-------------------|-----------------------|------------------------------|-------------------|-------------------|---------------------|---------------------|
| Salaries | \$ 849,429 | \$ 203,765 | \$ 22,816 | \$ 1,076,010 | \$ 173,273 | \$ 112,098 | \$ 330,341 | \$ 1,691,722 |
| Payroll taxes | 70,357 | 16,313 | 2,053 | 88,723 | 9,578 | 8,308 | 34,185 | 140,794 |
| Employee benefits | 78,345 | 22,397 | - | 100,742 | 22,111 | 14,374 | 44,800 | 182,027 |
| Total Personnel Expenses | 998,131 | 242,475 | 24,869 | 1,265,475 | 204,962 | 134,780 | 409,326 | 2,014,543 |
| Lease agreements | 102,641 | 211,542 | 31,362 | 345,545 | 31,362 | 31,362 | 31,364 | 439,633 |
| Depreciation and amortization | 74,883 | 19,969 | - | 94,852 | 4,992 | - | - | 99,844 |
| Other fees for services | 133,018 | 78,520 | - | 211,538 | - | 1,800 | 12,000 | 225,338 |
| Advertising and promotion | 67,080 | - | - | 67,080 | 4,239 | - | 105,344 | 176,663 |
| Professional fundraising services | - | - | - | - | - | - | 183,440 | 183,440 |
| Information technology | 26,428 | - | - | 26,428 | - | 39,753 | 29,894 | 96,075 |
| Other expenses | 6,053 | 297 | - | 6,350 | 428 | - | 99,096 | 105,874 |
| Campaign expense | - | - | - | - | - | - | 260,165 | 260,165 |
| Office supplies | 21,706 | - | - | 21,706 | 1,201 | 1,076 | 46,296 | 70,279 |
| Utilities | 28,496 | 27,573 | 8,707 | 64,776 | 8,707 | 8,707 | 8,707 | 90,897 |
| Insurance | 24,416 | 12,332 | - | 36,748 | 13,124 | - | - | 49,872 |
| Accounting | - | - | - | - | 73,085 | - | - | 73,085 |
| Repair and maintenance | 40,250 | 8,142 | - | 48,392 | - | - | - | 48,392 |
| Underwriting services | - | - | - | - | - | 51,502 | - | 51,502 |
| Conference, conventions, meetings | 6,622 | 725 | - | 7,347 | 966 | 337 | 1,651 | 10,301 |
| Business taxes and licenses | - | 16,372 | - | 16,372 | 7,888 | - | - | 24,260 |
| Legal fees | - | - | - | - | 30,796 | - | - | 30,796 |
| Travel and meetings | 2,079 | 1,395 | - | 3,474 | 2,991 | - | 191 | 6,656 |
| Total Expenses | \$ 1,531,803 | \$ 619,342 | \$ 64,938 | \$ 2,216,083 | \$ 384,741 | \$ 269,317 | \$ 1,187,474 | \$ 4,057,615 |

BEETHOVEN, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2020 AND 2019

| | <u>2020</u> | <u>2019</u> |
|--|---------------------|---------------------|
| Cash Flows from Operating Activities | | |
| Cash received from: | | |
| Listener support | \$ 4,891,981 | \$ 6,419,925 |
| Underwriters | 174,788 | 493,013 |
| Corporation for Public Broadcasting | 432,781 | 264,628 |
| Paycheck Protection Program | 316,810 | - |
| Other | 15,312 | 149,516 |
| Cash paid for: | | |
| Personnel | (2,064,788) | (2,065,432) |
| Services and supplies | <u>(1,671,641)</u> | <u>(1,903,877)</u> |
| Net Cash Provided by Operating Activities | <u>2,095,243</u> | <u>3,357,773</u> |
| Cash Flows from Investing Activities | | |
| Purchases of property and equipment | (730,158) | (1,936,752) |
| Purchase of investments | <u>-</u> | <u>(262,936)</u> |
| Net Cash Used by Investing Activities | <u>(730,158)</u> | <u>(2,199,688)</u> |
| Changes in Cash and Cash Equivalents | 1,365,085 | 1,158,085 |
| Cash and cash equivalents - beginning of year | <u>2,128,248</u> | <u>970,163</u> |
| Cash and cash equivalents - end of year | <u>\$ 3,493,333</u> | <u>\$ 2,128,248</u> |
| Reconciliation of Change in Net Assets to Net Cash Flows from Operating Activities | | |
| Change in net assets | \$ 1,079,946 | \$ 4,036,016 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities | | |
| Depreciation and amortization | 328,069 | 99,844 |
| Reinvested investment earnings | (13,374) | - |
| Gain on investments | (10,145) | - |
| Loss on disposal of equipment | 21,694 | - |
| Change in | | |
| Promises to give | 556,497 | (687,633) |
| Receivables | 53,008 | (14,082) |
| Prepaid expenses | 17,958 | (16,251) |
| Accounts payable | 16,580 | (11,478) |
| Accrued payroll and other liabilities | 27,146 | (50,889) |
| Deferred revenue | (7,180) | 2,246 |
| Deferred rent expense | <u>25,044</u> | <u>-</u> |
| Net Cash Provided by Operating Activities | <u>\$ 2,095,243</u> | <u>\$ 3,357,773</u> |

See notes to consolidated financial statements.

BEETHOVEN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2020 AND 2019

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.

In 2018, Classical 98.1 embarked on a campaign to raise \$3 million to facilitate a move from their current premises to a new location after the expiry of their lease in February 2020. The building they have occupied since 2000 has been sold and is slated for demolition at the end of the lease. By December 31, 2020, revenue raised towards the campaign was \$4,933,790, construction expenses total \$2,624,661, expenses in support of the effort totaled \$352,762.

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.

BEETHOVEN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2020 AND 2019

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Principles of consolidation

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

Basis of presentation

Classical KING FM 98.1 presents its financial statements on an accrual basis of accounting in accordance with FASB Accounting Standards Codification (ASC) 958, Not-for-Profit Entities. Under FASB ASC 958, the Agency is required to report information regarding its financial position and activities based on the existence or absence of donor- or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Net assets with donor restrictions are as follows at December 31:

| | <u>2020</u> | <u>2019</u> |
|--------------------------------------|-------------------|---------------------|
| Relocation campaign | \$ 195,778 | \$ 3,000,000 |
| Corporation for Public Broadcasting | | |
| - Specified Programming | - | 26,111 |
| Northwest Focus/Northwest Focus Live | <u>71,051</u> | <u>98,060</u> |
| | <u>\$ 266,829</u> | <u>\$ 3,124,171</u> |

Contributions restricted by donors are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions.

BEETHOVEN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2020 AND 2019

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are released from restriction when the assets are placed in service.

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.

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.

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. Classical KING FM 98.1 holds two money market accounts with balances totaling \$2,905,082 as of December 31, 2020.

Investments

Investments are reported at their fair values in the statement of financial position. Market risk could occur and is dependent on the future changes in market prices of the various investments held.

BEETHOVEN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2020 AND 2019

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Promises to give

Promises to give that are expected to be collected within one year are recorded at net realizable value. Promises to give 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. Conditional contributions are not included as support until the conditions are met. Unconditional promises to give as of December 31 consist of the following:

| | <u>2020</u> | <u>2019</u> |
|----------------------------------|-------------------|---------------------|
| Receivable in less than one year | \$ 362,386 | \$ 741,467 |
| Receivable in one to five years | <u>288,750</u> | <u>466,166</u> |
| | <u>\$ 651,136</u> | <u>\$ 1,207,633</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 five to seven years. Amortization is computed using the straight-line method over three 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>2020</u> | <u>2019</u> |
|---|---------------------|---------------------|
| Buildings and leasehold improvements | \$ 1,594,371 | \$ 1,102,258 |
| Towers, antennae, and transmitter equipment | 1,053,253 | 1,041,708 |
| Studio technical equipment | 894,526 | 267,775 |
| Furniture and office equipment | 334,040 | 406,643 |
| Projects in process | - | <u>1,903,843</u> |
| | <u>3,876,190</u> | <u>4,722,227</u> |
| Less: Accumulated depreciation | <u>(1,500,178)</u> | <u>(2,726,610)</u> |
| | <u>\$ 2,376,012</u> | <u>\$ 1,995,617</u> |

BEETHOVEN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2020 AND 2019

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 seven 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 one 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, 2020 or 2019 and, accordingly, no write down is included in the consolidated statements of activities for the years then ended.

Support and revenue recognition

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.

Classical KING FM 98.1 recognizes contributions when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been met. Classical KING FM 98.1 has contracts and grants that are conditioned upon certain performance requirements and the incurrence of allowable qualifying expenses. Consequently, as of December 31, 2020, conditional contributions and grants for which no amounts had been received in advance totaling \$200,586 have not been recognized in the accompanying financial statements.

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.

Functional allocation of expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statements of activities and of functional expenses. Where possible, specific expenses have been charged directly to the appropriate category. When functions are shared or costs are intermingled, such as leases, utilities and computer costs, expenses are allocated based on employee counts or estimated percentage of effort.

BEETHOVEN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2020 AND 2019

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising costs

Classical KING FM 98.1 expenses advertising costs as incurred. The consolidated statements of activities include \$78,272 and \$71,143, respectively, in advertising costs for the years ended December 31, 2020 and 2019.

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 to 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.

Reclassification

Certain accounts in the 2019 financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements. These reclassifications had no effect on the net assets or change in net assets as of or for the year ended December 31, 2019.

NOTE B - LIQUIDITY

As a listener-supported classical music radio station, Classical KING FM 98.1 monitors liquidity required to meet its operational needs and other commitments monthly. Classical KING FM 98.1 receives significant contributions each year from donors, underwriters, and government and private grants, which are available to meet annual cash needs for general expenditures. Classical KING FM 98.1 considers all unrestricted revenue to be available to meet cash needs for general expenditure, which includes administrative, programming, fundraising and operations expenses. Contributions with donor restrictions are also considered for use in current programs which are ongoing and central to its annual operations be made available to meet cash needs for general expenditures.

Classical KING FM 98.1 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 to fund near-term operating needs, and building sufficient reserves to provide reasonable assurance that commitments with donor restrictions will be met, ensuring sustainability of the station.

BEETHOVEN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2020 AND 2019

NOTE B – LIQUIDITY (Continued)

Financial assets available to meet cash needs for general expenditures within one year are as follows:

| | | |
|---|---------------------|---------------------|
| | <u>2020</u> | <u>2019</u> |
| Total financial assets | \$ 4,631,905 | \$ 3,852,806 |
| Donor-imposed restrictions: | | |
| Promises to give due in more than one year | (288,750) | (466,166) |
| Restricted to non-operating purposes | <u>(195,778)</u> | <u>(369,826)</u> |
| Net financial assets after donor-imposed restrictions | <u>\$ 4,147,377</u> | <u>\$ 3,016,814</u> |

NOTE C - FAIR VALUE MEASUREMENTS

Fair value of assets measured on a recurring basis (at least annually) is as follows as of December 31, 2020.

| | | | |
|-----------------------------------|-------------------|----------------|----------------|
| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
| Money market funds | \$ 13,374 | \$ - | \$ - |
| Vanguard Long Term Treasury | 1,039 | | |
| Vanguard Wellington Admiral | 17,764 | | |
| Vanguard Wellesley Income Admiral | 228,820 | | |
| Vanguard Windsor II Admiral | <u>25,458</u> | <u>-</u> | <u>-</u> |
| | <u>\$ 286,455</u> | <u>\$ -</u> | <u>\$ -</u> |

Fair value of assets measured on a recurring basis (at least annually) is as follows as of December 31, 2019.

| | | | |
|-----------------------------------|-------------------|----------------|----------------|
| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
| Money market funds | \$ - | \$ - | \$ - |
| Vanguard Long Term Treasury | 969 | | |
| Vanguard Wellington Admiral | 17,372 | | |
| Vanguard Wellesley Income Admiral | 220,652 | | |
| Vanguard Windsor II Admiral | <u>23,943</u> | <u>-</u> | <u>-</u> |
| | <u>\$ 262,936</u> | <u>\$ -</u> | <u>\$ -</u> |

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.

BEETHOVEN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2020 AND 2019

NOTE D - PAYCHECK PROTECTION PROGRAM LOAN

Classical KING 98.1 FM applied for and received a Paycheck Protection Program loan through First Financial Northwest Bank in the amount of \$316,810. The loan was funded on May 1, 2020 and had a maturity date of May 1, 2022. Paycheck Protection Program loans have a forgiveness option for employers who maintain their staffing levels and salaries at pre-COVID-19 pandemic levels. Expenses eligible to trigger forgiveness include employee wages, benefits, and office lease payments. Classical KING 98.1 FM entered into the program with the intention of complying with the terms for forgiveness and recognized the loan as a conditional grant. In December 2020, Classical KING 98.1 received confirmation of forgiveness.

NOTE E - 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 \$33,972 and \$38,756, respectively, for the years ended December 31, 2020 and 2019.

NOTE F - 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. The CM lease was extended during 2019 through June 30, 2030. Future minimum lease payments under this lease for the years ending December 31 are as follows:

| | | |
|------------|----|------------------|
| 2021 | \$ | 214,266 |
| 2022 | | 221,860 |
| 2023 | | 229,727 |
| 2024 | | 237,880 |
| 2025 | | 246,880 |
| Thereafter | | <u>890,683</u> |
| Total | \$ | <u>2,041,296</u> |

Classical KING FM 98.1 leased its previous facilities from ArtsFund, a related party, under a lease which expired February 28, 2020. During 2019, Classical KING FM 98.1 entered into a new fifteen-year lease with the Seattle Opera, a related party, for its new facilities location, commencing on March 1, 2020. In accordance with financial accounting standards, rent expense for this lease is recognized on a straight-line basis and a related deferred rent liability is recorded.

BEETHOVEN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2020 AND 2019

NOTE F - LEASE COMMITMENTS (Continued)

Future minimum lease payments, deferred rent, and rent expense for the years ended December 31 are as follows:

| | Minimum Lease <u>Payment</u> | Change in Deferred Rent <u>Liability</u> | Rent <u>Expense</u> |
|------------|------------------------------------|--|------------------------|
| 2021 | \$ 199,834 | \$ 26,777 | \$ 226,611 |
| 2022 | 203,831 | 22,780 | 226,611 |
| 2023 | 207,907 | 18,703 | 226,610 |
| 2024 | 212,065 | 14,545 | 226,610 |
| 2025 | 216,307 | 10,304 | 226,611 |
| Thereafter | <u>2,195,417</u> | <u>(118,153)</u> | <u>2,077,264</u> |
| Total | <u>\$ 3,235,361</u> | <u>\$ (25,044)</u> | <u>\$ 3,210,317</u> |

Lease expense for the tower sites totaled \$205,850 and \$199,051, respectively, for the years ended December 31, 2020 and 2019, and lease expense for the facilities totaled \$222,160 and \$199,291, respectively, for the years ended December 31, 2020 and 2019.

NOTE G - RISKS AND UNCERTAINTIES

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic which continues to spread throughout the United States. On March 23, 2020 the Governor of Washington declared a health emergency and issued an order to close all nonessential businesses until further notice. Management is currently evaluating the ongoing impacts of the COVID-19 pandemic and has concluded that while it is reasonably possible that the virus could have a negative effect on the Organization's financial position, change in net asset and cash flows, the specific impact is not readily determinable as of the date of these financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

NOTE H - SUBSEQUENT EVENTS

Management has evaluated events occurring subsequent to December 31, 2020 through April 13, 2021, 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, 2020, including the estimates inherent in the processing of financial statements.

SUPPLEMENTARY INFORMATION

CLASSICAL 98.1

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2020 AND 2019

| | 2020 | | | 2019 | | |
|--|-------------------------------|----------------------------|---------------------|-------------------------------|----------------------------|---------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total | Without Donor Restrictions | With Donor Restrictions | Total |
| Public Support and Revenue | | | | | | |
| Listener support | \$ 4,412,355 | \$ - | \$ 4,412,355 | \$ 5,001,701 | \$ 2,172,937 | \$ 7,174,638 |
| Underwriting | 145,395 | | 145,395 | 491,383 | | 491,383 |
| Corporation for Public Broadcasting | | | | | | |
| Community Service Grants | 416,346 | - | 416,346 | 203,926 | 74,168 | 278,094 |
| PPP loan forgiveness | 316,810 | | 316,810 | - | | - |
| Investment and other income | 38,831 | | 38,831 | 149,511 | | 149,511 |
| | <u>5,329,737</u> | <u>-</u> | <u>5,329,737</u> | <u>5,846,521</u> | <u>2,247,105</u> | <u>8,093,626</u> |
| Net Assets Released from Restrictions | | | | | | |
| Purpose restrictions | 2,857,342 | (2,857,342) | - | 124,152 | (124,152) | - |
| Time restrictions | - | - | - | - | - | - |
| Total Public Support, Revenue, and Other Support | <u>8,187,079</u> | <u>(2,857,342)</u> | <u>5,329,737</u> | <u>5,970,673</u> | <u>2,122,953</u> | <u>8,093,626</u> |
| Expenses | | | | | | |
| Program services | | | | | | |
| Programming, production, and broadcasting | 2,545,516 | | 2,545,516 | 2,311,117 | | 2,311,117 |
| Public information | 29,837 | | 29,837 | 24,869 | | 24,869 |
| Total Program Services | 2,575,353 | | 2,575,353 | 2,335,986 | | 2,335,986 |
| Administration | 411,591 | | 411,591 | 270,401 | | 270,401 |
| Underwriting | 234,121 | | 234,121 | 229,248 | | 229,248 |
| Listener support | 1,018,564 | | 1,018,564 | 1,147,403 | | 1,147,403 |
| Total Expenses | <u>4,239,629</u> | <u>-</u> | <u>4,239,629</u> | <u>3,983,038</u> | <u>-</u> | <u>3,983,038</u> |
| Change in Net Assets | <u>\$ 3,947,450</u> | <u>\$(2,857,342)</u> | <u>\$ 1,090,108</u> | <u>\$ 1,987,635</u> | <u>\$ 2,122,953</u> | <u>\$ 4,110,588</u> |