

BEETHOVEN, INC. AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
With Independent Auditor's Report
YEARS ENDED DECEMBER 31, 2018 AND 2017



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INDEPENDENT AUDITOR'S REPORT

May 8, 2019

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, 2018 and 2017, 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, 2018 and 2017, 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, 2018 and 2017 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, 2018 and 2017 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, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents	\$ 970,163	\$ 497,041
Promises to give	335,000	31,500
Receivables, net of allowance for doubtful accounts of \$2,400	239,907	262,420
Prepaid expenses	<u>21,610</u>	<u>28,192</u>
Total Current Assets	1,566,680	819,153
Long Term Promises to Give	185,000	-
Property and Equipment, net	158,457	244,572
Goodwill	133,518	133,518
FCC License	1,425,647	1,425,647
Other Intangible Assets, net	<u>252</u>	<u>586</u>
	<u>\$ 3,469,554</u>	<u>\$ 2,623,476</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Accounts payable	\$ 53,900	\$ 78,724
Accrued payroll and other liabilities	133,371	120,750
Deferred revenue	<u>6,444</u>	<u>17,023</u>
Total Current Liabilities	<u>193,715</u>	<u>216,497</u>
Net Assets		
Without donor restrictions	2,274,621	2,249,235
With donor restrictions	<u>1,001,218</u>	<u>157,744</u>
Total Net Assets	<u>3,275,839</u>	<u>2,406,979</u>
	<u>\$ 3,469,554</u>	<u>\$ 2,623,476</u>

BEETHOVEN, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018			2017		
	Without Donor Restriction	With Donor Restriction	Total	Without Donor Restriction	With Donor Restriction	Total
Public Support and Revenue						
Listener support	\$ 3,137,345	\$ 951,063	\$ 4,088,408	\$ 2,982,991	\$ 91,460	\$ 3,074,451
Underwriting	465,217		465,217	489,747		489,747
Corporation for Public Broadcasting						
Community Service Grants	171,338	61,871	233,209	169,758	60,361	230,119
Travel club	122,500		122,500	123,000		123,000
Other income	18,062		18,062	72		72
	<u>3,914,462</u>	<u>1,012,934</u>	<u>4,927,396</u>	<u>3,765,568</u>	<u>151,821</u>	<u>3,917,389</u>
Net Assets Released from Restrictions						
Purpose restrictions	169,460	(169,460)	-	153,140	(153,140)	-
Time restrictions	-	-	-	-	-	-
Total Public Support, Revenue, and Other Support	<u>4,083,922</u>	<u>843,474</u>	<u>4,927,396</u>	<u>3,918,708</u>	<u>(1,319)</u>	<u>3,917,389</u>
Expenses						
Program services						
Programming and production	1,563,207		1,563,207	1,661,772		1,661,772
Broadcasting	620,617		620,617	595,375		595,375
Public information	194,265		194,265	336,921		336,921
Total Program Services	<u>2,378,089</u>		<u>2,378,089</u>	<u>2,594,068</u>		<u>2,594,068</u>
Administration	315,745		315,745	314,638		314,638
Underwriting	349,914		349,914	294,278		294,278
Listener support	1,014,788		1,014,788	1,003,003		1,003,003
Total Supporting Services	<u>1,680,447</u>		<u>1,680,447</u>	<u>1,611,919</u>		<u>1,611,919</u>
Total Expenses	<u>4,058,536</u>		<u>4,058,536</u>	<u>4,205,987</u>		<u>4,205,987</u>
Change in Net Assets	25,386	843,474	868,860	(287,279)	(1,319)	(288,598)
Net Assets - beginning of year	<u>2,249,235</u>	<u>157,744</u>	<u>2,406,979</u>	<u>2,536,514</u>	<u>159,063</u>	<u>2,695,577</u>
Net Assets - end of year	<u>\$ 2,274,621</u>	<u>\$ 1,001,218</u>	<u>\$ 3,275,839</u>	<u>\$ 2,249,235</u>	<u>\$ 157,744</u>	<u>\$ 2,406,979</u>

BEETHOVEN, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2018

	Programming & Production	Broadcasting	Public Information	Total Program Services	Administration	Underwriting	Listener Support	Total
Salaries	\$ 875,447	\$ 206,722	\$ 51,870	\$ 1,134,039	\$ 144,440	\$ 187,088	\$ 418,473	\$ 1,884,040
Payroll taxes	76,534	17,273	4,884	98,691	6,534	13,749	35,833	154,807
Employee benefits	79,395	20,938	7,610	107,943	21,652	18,935	38,476	187,006
Total Personnel Expenses	1,031,376	244,933	64,364	1,340,673	172,626	219,772	492,782	2,225,853
Lease agreements	102,519	199,347	30,455	332,321	30,455	30,455	30,505	423,736
Other fees for services	112,717	92,038	15,201	219,956	298	-	5,000	225,254
Professional fundraising services	-	-	-	-	-	1,361	184,470	185,831
Advertising and promotion	51,510	-	-	51,510	1,237	-	69,507	122,254
Information technology	45,620	-	-	45,620	-	37,747	27,164	110,531
Depreciation and amortization	76,754	20,468	-	97,222	5,117	-	-	102,339
Other expenses	14,001	27	-	14,028	5,058	-	72,819	91,905
Utilities	27,302	25,867	8,343	61,512	8,343	8,342	8,342	86,539
Campaign expense	-	-	-	-	-	-	83,950	83,950
Art marketing partnerships	-	-	75,000	75,000	-	-	-	75,000
Office supplies	24,429	-	-	24,429	1,058	519	38,162	64,168
Accounting	-	-	-	-	62,207	-	-	62,207
Underwriting services	-	-	-	-	-	51,718	-	51,718
Repair and maintenance	41,910	8,022	-	49,932	-	-	-	49,932
Insurance	23,997	12,128	-	36,125	12,462	-	-	48,587
Business taxes and licenses	-	17,618	-	17,618	-	-	-	17,618
Legal fees	-	-	-	-	15,394	-	-	15,394
Conference, conventions, meetings	7,506	20	275	7,801	603	-	992	9,396
Travel and meetings	3,566	149	627	4,342	887	-	1,095	6,324
Total Expenses	\$ 1,563,207	\$ 620,617	\$ 194,265	\$ 2,378,089	\$ 315,745	\$ 349,914	\$ 1,014,788	\$ 4,058,536

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
Information technology	44,436	-	-	44,436	-	28,872	33,940	107,248
Depreciation and amortization	24,383	97,530	-	121,913	-	-	-	121,913
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
Office supplies	26,089	-	-	26,089	1,178	250	36,648	64,165
Accounting	-	-	-	-	62,821	-	-	62,821
Underwriting services	-	-	-	-	-	71,615	-	71,615
Repair and maintenance	52,618	5,846	-	58,464	-	-	-	58,464
Insurance	38,813	9,703	-	48,516	-	-	-	48,516
Business taxes and licenses	-	15,640	-	15,640	-	-	-	15,640
Legal fees	-	-	-	-	9,921	-	-	9,921
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
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 STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities		
Cash received from:		
Listener support	\$ 3,548,398	\$ 3,004,718
Underwriters	478,078	448,409
Corporation for Public Broadcasting	232,282	241,440
Other	130,909	123,202
Cash paid for:		
Personnel	(2,213,232)	(2,314,901)
Services and supplies	<u>(1,697,076)</u>	<u>(1,671,532)</u>
Net Cash Provided (Used) by Operating Activities	<u>479,359</u>	<u>(168,664)</u>
Cash Flows from Investing Activities		
Purchases of property and equipment	(16,145)	(6,321)
Proceeds from sale of property and equipment	<u>9,908</u>	<u>-</u>
Net Cash Used by Investing Activities	<u>(6,237)</u>	<u>(6,321)</u>
Changes in Cash and Cash Equivalents	473,122	(174,985)
Cash and cash equivalents - beginning of year	<u>497,041</u>	<u>672,026</u>
Cash and cash equivalents - end of year	<u>\$ 970,163</u>	<u>\$ 497,041</u>
Reconciliation of Change in Net Assets to Net Cash Flows from Operating Activities		
Change in net assets	\$ 868,860	\$ (288,598)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation and amortization	102,339	121,913
(Gain) loss on disposal of equipment	(9,653)	130
Change in		
Promises to give	(488,500)	26,650
Receivables	22,513	(28,921)
Prepaid expenses	6,582	(752)
Accounts payable	(24,824)	13,649
Accrued payroll and other liabilities	12,621	(11,639)
Deferred revenue	<u>(10,579)</u>	<u>(1,096)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 479,359</u>	<u>\$ (168,664)</u>

See notes to consolidated financial statements.

BEETHOVEN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

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, 2018, revenue raised towards the campaign was \$872,063 and expenses in support of the effort totaled \$83,950. These amounts are included in the consolidated statement of activities for 2018.

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.

BEETHOVEN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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

Net assets, revenues, gains, and losses are classified 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>2018</u>	<u>2017</u>
Relocation campaign	\$ 872,063	\$ -
Corporation for Public Broadcasting		
- Specified Programming	18,561	18,108
Northwest Focus/Northwest Focus Live	110,594	96,176
Grand Piano Hour	-	25,000
Other restricted	-	18,460
	<u>\$ 1,001,218</u>	<u>\$ 157,744</u>

BEETHOVEN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

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, 2018 or 2017. 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. 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.

BEETHOVEN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

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>2018</u>	<u>2017</u>
Receivable in less than one year	\$ 335,000	\$ 31,500
Receivable in one to five years	<u>185,000</u>	<u>-</u>
	<u>\$ 520,000</u>	<u>\$ 31,500</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>2018</u>	<u>2017</u>
Buildings and leasehold improvements	\$ 1,102,258	\$ 1,102,258
Towers, antennae, and transmitter equipment	1,022,886	1,030,086
Studio technical equipment	274,688	267,467
Program production material	44,699	44,699
Furniture and office equipment	<u>398,990</u>	<u>444,350</u>
	2,843,521	2,888,860
Less: Accumulated depreciation	<u>(2,685,064)</u>	<u>(2,644,288)</u>
	<u>\$ 158,457</u>	<u>\$ 244,572</u>

BEETHOVEN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

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, 2018 or 2017 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

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.

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

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.

BEETHOVEN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

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 \$54,390 and \$106,657, respectively, in advertising costs for the years ended December 31, 2018 and 2017.

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 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.

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.

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.

BEETHOVEN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

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. Starting in 2019, Classical KING FM 98.1 plans to build a reserve fund using unanticipated bequest contributions. Although Classical KING FM 98.1 does not intend to spend from the fund, amounts could be made available if necessary after board approval. Classical KING FM 98.1 also has a line of credit in the amount of \$50,000, which could be drawn upon in the event of an unanticipated liquidity need.

The radio station 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.

	<u>2018</u>
Total financial assets	\$ 1,730,070
Donor-imposed restrictions:	
Promises to give due in more than one year	(185,000)
Restricted to non-operating purposes	<u>(730,063)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 815,007</u>

NOTE C – LINE OF CREDIT

Classical 98.1 has a \$50,000 revolving line of credit agreement with Columbia State Bank. The line of credit bears interest at 2.25% over the bank's base rate, but not less than 4.75%, expires on September 1, 2019, 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, 2018 or 2017.

BEETHOVEN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

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 \$34,389 and 38,962, respectively, for the years ended December 31, 2018 and 2017.

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:

	<u>Facilities</u>	<u>Tower Sites</u>	<u>Total</u>
2019	\$ 199,291	\$ 199,051	\$ 398,342
2020	33,318	157,715	191,033
2021		116,552	116,552
2022		121,214	121,214
2023		126,063	126,063
Thereafter	<u> </u>	<u>556,736</u>	<u>556,736</u>
Total	<u>\$ 232,609</u>	<u>\$ 1,277,331</u>	<u>\$ 1,509,940</u>

Lease expense for the tower sites totaled \$194,454 and \$189,570, respectively, for the years ended December 31, 2018 and 2017, and lease expense for the facilities totaled \$195,589 and \$191,887, respectively, for the years ended December 31, 2018 and 2017.

BEETHOVEN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

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, 2018 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 2018, representing the change in potential tax benefits relating to differences between financial and tax basis accrued liabilities at December 31, 2018. As of December 31, 2018, 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	\$ 362,477
Non-current deferred income tax liability	(300,547)
Less allowance for uncollectable	
non-current deferred income tax asset	<u>(61,930)</u>
Net non-current deferred income tax liability	<u>\$ -</u>

NOTE G - SUBSEQUENT EVENTS

Management has evaluated events occurring subsequent to December 31, 2018 through May 8, 2019, 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, 2018, including the estimates inherent in the processing of financial statements.

SUPPLEMENTARY INFORMATION

CLASSICAL 98.1

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018			2017		
	Without Donor Restriction	With Donor Restriction	Total	Without Donor Restriction	With Donor Restriction	Total
Public Support and Revenue						
Listener support	\$ 3,137,345	\$ 951,063	\$ 4,088,408	\$ 2,982,991	\$ 91,460	\$ 3,074,451
Underwriting	465,217		465,217	489,747		489,747
Corporation for Public Broadcasting						
Community Service Grants	171,338	61,871	233,209	169,758	60,361	230,119
Other income	130,904		130,904	123,202		123,202
	<u>3,904,804</u>	<u>1,012,934</u>	<u>4,917,738</u>	<u>3,765,698</u>	<u>151,821</u>	<u>3,917,519</u>
Net Assets Released from Restrictions						
Purpose restrictions	169,460	(169,460)	-	153,140	(153,140)	-
Time restrictions	-	-	-	-	-	-
Total Public Support, Revenue, and Other Support	<u>4,074,264</u>	<u>843,474</u>	<u>4,917,738</u>	<u>3,918,838</u>	<u>(1,319)</u>	<u>3,917,519</u>
Expenses						
Program services						
Programming, production, and broadcasting	2,318,225		2,318,225	2,319,604		2,319,604
Public information	155,467		155,467	298,694		298,694
Total Program Services	2,473,692		2,473,692	2,618,298		2,618,298
Administration	208,656		208,656	225,508		225,508
Underwriting	309,756		309,756	254,334		254,334
Listener support	977,302		977,302	966,493		966,493
Total Expenses	<u>3,969,406</u>		<u>3,969,406</u>	<u>4,064,633</u>		<u>4,064,633</u>
Change in Net Assets	<u>\$ 104,858</u>	<u>\$ 843,474</u>	<u>\$ 948,332</u>	<u>\$ (145,795)</u>	<u>\$ (1,319)</u>	<u>\$ (147,114)</u>