

BEETHOVEN, INC. AND SUBSIDIARIES  
CONSOLIDATED FINANCIAL STATEMENTS  
With Independent Auditor's Report  
YEARS ENDED DECEMBER 31, 2019 AND 2018



BEETHOVEN, INC. AND SUBSIDIARIES  
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INDEPENDENT AUDITOR'S REPORT

May 21, 2020

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, 2019 and 2018, 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, 2019 and 2018, 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, 2019 and 2018 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, 2019 and 2018 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, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents	\$ 2,391,184	\$ 970,163
Promises to give	741,467	335,000
Receivables, net of allowance for doubtful accounts of \$2,400	253,989	239,907
Prepaid expenses	<u>37,861</u>	<u>21,610</u>
Total Current Assets	3,424,501	1,566,680
Long Term Promises to Give	466,166	185,000
Property and Equipment, net	1,995,617	158,457
Goodwill	133,518	133,518
FCC License	1,425,647	1,425,647
Other Intangible Assets, net	<u>-</u>	<u>252</u>
	<u>\$ 7,445,449</u>	<u>\$ 3,469,554</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Accounts payable	\$ 42,422	\$ 53,900
Accrued payroll and other liabilities	82,482	133,371
Deferred revenue	<u>8,690</u>	<u>6,444</u>
Total Current Liabilities	<u>133,594</u>	<u>193,715</u>
Net Assets		
Without donor restrictions	4,187,684	2,274,621
With donor restrictions	<u>3,124,171</u>	<u>1,001,218</u>
Total Net Assets	<u>7,311,855</u>	<u>3,275,839</u>
	<u>\$ 7,445,449</u>	<u>\$ 3,469,554</u>

BEETHOVEN, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Public Support and Revenue						
Listener support	\$ 5,001,701	\$ 2,172,937	\$ 7,174,638	\$ 3,137,345	\$ 951,063	\$ 4,088,408
Underwriting	491,383		491,383	465,217		465,217
Corporation for Public Broadcasting						
Community Service Grants	203,926	74,168	278,094	171,338	61,871	233,209
Travel club	147,000		147,000	122,500		122,500
Other income	2,516		2,516	18,062		18,062
	<u>5,846,526</u>	<u>2,247,105</u>	<u>8,093,631</u>	<u>3,914,462</u>	<u>1,012,934</u>	<u>4,927,396</u>
Net Assets Released from Restrictions						
Purpose restrictions	124,152	(124,152)	-	169,460	(169,460)	-
Time restrictions	-	-	-	-	-	-
Total Public Support, Revenue, and Other Support	<u>5,970,678</u>	<u>2,122,953</u>	<u>8,093,631</u>	<u>4,083,922</u>	<u>843,474</u>	<u>4,927,396</u>
Expenses						
Program services						
Programming and production	1,531,803		1,531,803	1,563,207		1,563,207
Broadcasting	619,342		619,342	620,617		620,617
Public information	64,938		64,938	194,265		194,265
Total Program Services	<u>2,216,083</u>		<u>2,216,083</u>	<u>2,378,089</u>		<u>2,378,089</u>
Administration	384,741		384,741	315,745		315,745
Underwriting	269,317		269,317	349,914		349,914
Listener support	1,187,474		1,187,474	1,014,788		1,014,788
Total Supporting Services	<u>1,841,532</u>		<u>1,841,532</u>	<u>1,680,447</u>		<u>1,680,447</u>
Total Expenses	<u>4,057,615</u>		<u>4,057,615</u>	<u>4,058,536</u>		<u>4,058,536</u>
Change in Net Assets	1,913,063	2,122,953	4,036,016	25,386	843,474	868,860
Net Assets - beginning 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>
Net Assets - end 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>

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
<b>Total Personnel Expenses</b>	<b>998,131</b>	<b>242,475</b>	<b>24,869</b>	<b>1,265,475</b>	<b>204,962</b>	<b>134,780</b>	<b>409,326</b>	<b>2,014,543</b>
Lease agreements	102,641	211,542	31,362	345,545	31,362	31,362	31,364	439,633
Campaign expense	-	-	-	-	-	-	260,165	260,165
Other fees for services	133,018	78,520	-	211,538	-	1,800	12,000	225,338
Professional fundraising services	-	-	-	-	-	-	183,440	183,440
Advertising and promotion	67,080	-	-	67,080	4,239	-	105,344	176,663
Other expenses	6,053	297	-	6,350	428	-	99,096	105,874
Depreciation and amortization	74,883	19,969	-	94,852	4,992	-	-	99,844
Information technology	26,428	-	-	26,428	-	39,753	29,894	96,075
Utilities	28,496	27,573	8,707	64,776	8,707	8,707	8,707	90,897
Accounting	-	-	-	-	73,085	-	-	73,085
Office supplies	21,706	-	-	21,706	1,201	1,076	46,296	70,279
Underwriting services	-	-	-	-	-	51,502	-	51,502
Insurance	24,416	12,332	-	36,748	13,124	-	-	49,872
Repair and maintenance	40,250	8,142	-	48,392	-	-	-	48,392
Legal fees	-	-	-	-	30,796	-	-	30,796
Business taxes and licenses	-	16,372	-	16,372	7,888	-	-	24,260
Conference, conventions, meetings	6,622	725	-	7,347	966	337	1,651	10,301
Travel and meetings	2,079	1,395	-	3,474	2,991	-	191	6,656
Art marketing partnerships	-	-	-	-	-	-	-	-
<b>Total Expenses</b>	<b>\$ 1,531,803</b>	<b>\$ 619,342</b>	<b>\$ 64,938</b>	<b>\$ 2,216,083</b>	<b>\$ 384,741</b>	<b>\$ 269,317</b>	<b>\$ 1,187,474</b>	<b>\$ 4,057,615</b>

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
<b>Total Personnel Expenses</b>	<b>1,031,376</b>	<b>244,933</b>	<b>64,364</b>	<b>1,340,673</b>	<b>172,626</b>	<b>219,772</b>	<b>492,782</b>	<b>2,225,853</b>
Lease agreements	102,519	199,347	30,455	332,321	30,455	30,455	30,505	423,736
Campaign expense	-	-	-	-	-	-	83,950	83,950
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
Other expenses	14,001	27	-	14,028	5,058	-	72,819	91,905
Depreciation and amortization	76,754	20,468	-	97,222	5,117	-	-	102,339
Information technology	45,620	-	-	45,620	-	37,747	27,164	110,531
Utilities	27,302	25,867	8,343	61,512	8,343	8,342	8,342	86,539
Accounting	-	-	-	-	62,207	-	-	62,207
Office supplies	24,429	-	-	24,429	1,058	519	38,162	64,168
Underwriting services	-	-	-	-	-	51,718	-	51,718
Insurance	23,997	12,128	-	36,125	12,462	-	-	48,587
Repair and maintenance	41,910	8,022	-	49,932	-	-	-	49,932
Legal fees	-	-	-	-	15,394	-	-	15,394
Business taxes and licenses	-	17,618	-	17,618	-	-	-	17,618
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
Art marketing partnerships	-	-	75,000	75,000	-	-	-	75,000
<b>Total Expenses</b>	<b>\$ 1,563,207</b>	<b>\$ 620,617</b>	<b>\$ 194,265</b>	<b>\$ 2,378,089</b>	<b>\$ 315,745</b>	<b>\$ 349,914</b>	<b>\$ 1,014,788</b>	<b>\$ 4,058,536</b>



BEETHOVEN, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
<b>Cash Flows from Operating Activities</b>		
Cash received from:		
Listener support	\$ 6,419,925	\$ 3,548,398
Underwriters	493,013	478,078
Corporation for Public Broadcasting	264,628	232,282
Other	149,516	130,909
Cash paid for:		
Personnel	(2,065,432)	(2,213,232)
Services and supplies	<u>(1,903,877)</u>	<u>(1,697,076)</u>
Net Cash Provided by Operating Activities	<u>3,357,773</u>	<u>479,359</u>
<b>Cash Flows from Investing Activities</b>		
Purchases of property and equipment	(1,936,752)	(16,145)
Proceeds from sale of property and equipment	<u>-</u>	<u>9,908</u>
Net Cash Used by Investing Activities	<u>(1,936,752)</u>	<u>(6,237)</u>
Changes in Cash and Cash Equivalents	1,421,021	473,122
Cash and cash equivalents - beginning of year	<u>970,163</u>	<u>497,041</u>
Cash and cash equivalents - end of year	<u>\$ 2,391,184</u>	<u>\$ 970,163</u>
<b>Reconciliation of Change in Net Assets to Net Cash Flows from Operating Activities</b>		
Change in net assets	\$ 4,036,016	\$ 868,860
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	99,844	102,339
Gain on disposal of equipment	-	(9,653)
Change in		
Promises to give	(687,633)	(488,500)
Receivables	(14,082)	22,513
Prepaid expenses	(16,251)	6,582
Accounts payable	(11,478)	(24,824)
Accrued payroll and other liabilities	(50,889)	12,621
Deferred revenue	<u>2,246</u>	<u>(10,579)</u>
Net Cash Provided by Operating Activities	<u>\$ 3,357,773</u>	<u>\$ 479,359</u>

BEETHOVEN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

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, 2019, revenue raised towards the campaign was \$4,107,010, construction expenses total \$1,903,843, expenses in support of the effort totaled \$260,165. These amounts are included in the consolidated statement of activities for 2019.

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, 2019 AND 2018

#### 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.

#### Adoption of new accounting pronouncements

FASB Accounting Standards Codification Topic 606, Revenue from Contracts with Customers, as amended, supersedes or replaces nearly all GAAP revenue recognition guidance. These standards establish a new contract and control-based revenue recognition model, change the basis for deciding when revenue is recognized over time or at a point in time, and expand disclosures about revenue. Classical KING FM 98.1 has implemented Topic 606 and has adjusted the presentation in these consolidated financial statements accordingly. Analysis of various provisions of this standard resulted in no significant changes in the way the Classical KING FM 98.1 recognizes revenue from contracts with customers, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis.

In June 2018, FASB issued ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. Classical KING FM 98.1 has implemented the provisions of ASU 2018-08 applicable to contributions received in the accompanying consolidated financial statements under a modified prospective basis. Analysis of various provisions of this standard resulted in no significant changes in the way the Classical KING FM 98.1 recognizes contributions, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis.

#### 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:

BEETHOVEN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Classical KING FM 98.1's board of directors has designated \$2,060,085 of net assets without donor restriction for financial stability as of December 31, 2019.

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>2019</u>	<u>2018</u>
Relocation campaign	\$ 3,000,000	\$ 872,063
Corporation for Public Broadcasting		
- Specified Programming	26,111	18,561
Northwest Focus/Northwest Focus Live	<u>98,060</u>	<u>110,594</u>
	<u>\$ 3,124,171</u>	<u>\$ 1,001,218</u>

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.

BEETHOVEN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

There were no assets measured at fair value on a recurring basis as of December 31, 2019 or 2018. 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. In 2019, two money market accounts were opened with Vanguard with balances totaling \$463,038 as of December 31, 2019.

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>2019</u>	<u>2018</u>
Receivable in less than one year	\$ 741,467	\$ 335,000
Receivable in one to five years	<u>466,166</u>	<u>185,000</u>
	<u>\$ 1,207,633</u>	<u>\$ 520,000</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.

BEETHOVEN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

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 \$71,143 and \$54,390, respectively, in advertising costs for the years ended December 31, 2019 and 2018.

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>2019</u>	<u>2018</u>
Buildings and leasehold improvements	\$ 1,102,258	\$ 1,102,258
Towers, antennae, and transmitter equipment	1,041,708	1,022,886
Studio technical equipment	267,775	274,688
Program production material	44,699	44,699
Furniture and office equipment	361,944	398,990
Projects in process	<u>1,903,843</u>	<u>-</u>
	4,722,227	2,843,521
Less: Accumulated depreciation	<u>(2,726,610)</u>	<u>(2,685,064)</u>
	<u>\$ 1,995,617</u>	<u>\$ 158,457</u>

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, 2019 or 2018 and, accordingly, no write down is included in the consolidated statements of activities for the years then ended.

BEETHOVEN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

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.

BEETHOVEN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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. During 2019, Classical KING FM 98.1 started to build a reserve fund comprising \$81,012 in bequest contributions and \$1,979,073 from campaign donations. 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 \$350,000, 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.



BEETHOVEN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE B – LIQUIDITY (Continued)

	<u>2019</u>	<u>2018</u>
Total financial assets	\$ 3,852,806	\$ 1,730,070
Donor-imposed restrictions:		
Promises to give due in more than one year	(466,166)	(185,000)
Restricted to non-operating purposes	<u>(369,826)</u>	<u>(730,063)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 3,016,814</u>	<u>\$ 815,007</u>

NOTE C – LINE OF CREDIT

Classical 98.1 has a \$350,000 revolving line of credit agreement with Chase Bank. The line of credit bears interest at 7.75% + 1 month LIBOR, expires on October 15, 2020, 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, 2019 or 2018.

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 \$38,756 and 34,389, respectively, for the years ended December 31, 2019 and 2018.

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. The CM lease was extended during 2019 through June 30, 2030.

BEETHOVEN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE E – LEASE COMMITMENTS (Continued)

Classical KING FM 98.1 leased its previous 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>
2020	33,318	205,850	239,168
2021	-	214,266	214,266
2022	-	221,860	221,860
2023	-	229,727	229,727
2024	-	237,880	237,880
Thereafter	-	<u>1,137,010</u>	<u>1,137,010</u>
Total	<u>\$ 33,318</u>	<u>\$ 2,246,593</u>	<u>\$ 2,279,911</u>

Lease expense for the tower sites totaled \$199,051 and \$194,454, respectively, for the years ended December 31, 2019 and 2018, and lease expense for the facilities totaled \$199,291 and \$195,589, respectively, for the years ended December 31, 2019 and 2018.

During 2019, Classical KING FM 98.1 also entered into a new fifteen-year lease with the Seattle Opera, a related party, for its new facilities location, commencing on March 1, 2020. Future minimum lease payments are as follows:

	<u>Facilities</u>
2020	163,798
2021	199,834
2022	203,831
2023	207,907
2024	212,065
Thereafter	<u>2,411,723</u>
Total	<u>\$ 3,399,158</u>

BEETHOVEN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

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, 2019 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 \$13,040 in 2019, representing the change in potential tax benefits relating to differences between financial and tax basis accrued liabilities at December 31, 2019. As of December 31, 2019, 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	\$ 375,517
Non-current deferred income tax liability	(300,547)
Less allowance for uncollectable	
non-current deferred income tax asset	<u>(74,970)</u>
Net non-current deferred income tax liability	<u>\$ -</u>

NOTE G - SUBSEQUENT EVENTS

Management has evaluated events occurring subsequent to December 31, 2019 through May 21, 2020, 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, 2019, including the estimates inherent in the processing of financial statements.

On March 11, 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. As Classical KING 98.1 FM is considered to be an essential service organization, it has continued operations.

Management continues to evaluate the financial impact of the COVID-19 pandemic and has concluded that while it is likely that the virus will have a negative effect on the Station's financial position, change in net assets, and cash flows, the specific impact is not readily determinable as of the date of these financial statements. In addition, Classical KING 98.1 FM has obtained a \$316, 810 Paycheck Protection Program loan as part of its emergency response plan. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

**SUPPLEMENTARY INFORMATION**

CLASSICAL 98.1

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Public Support and Revenue						
Listener support	\$ 5,001,701	\$ 2,172,937	\$ 7,174,638	\$ 3,137,345	\$ 951,063	\$ 4,088,408
Underwriting	491,383		491,383	465,217		465,217
Corporation for Public Broadcasting						
Community Service Grants	203,926	74,168	278,094	171,338	61,871	233,209
Other income	149,511		149,511	130,904		130,904
	<u>5,846,521</u>	<u>2,247,105</u>	<u>8,093,626</u>	<u>3,904,804</u>	<u>1,012,934</u>	<u>4,917,738</u>
Net Assets Released from Restrictions						
Purpose restrictions	124,152	(124,152)	-	169,460	(169,460)	-
Time restrictions	-	-	-	-	-	-
Total Public Support, Revenue, and Other Support	<u>5,970,673</u>	<u>2,122,953</u>	<u>8,093,626</u>	<u>4,074,264</u>	<u>843,474</u>	<u>4,917,738</u>
Expenses						
Program services						
Programming, production, and broadcasting	2,311,117		2,311,117	2,318,225		2,318,225
Public information	24,869		24,869	155,467		155,467
Total Program Services	2,335,986		2,335,986	2,473,692		2,473,692
Administration	270,401		270,401	208,656		208,656
Underwriting	229,248		229,248	309,756		309,756
Listener support	1,147,403		1,147,403	977,302		977,302
Total Expenses	<u>3,983,038</u>		<u>3,983,038</u>	<u>3,969,406</u>		<u>3,969,406</u>
Change in Net Assets	<u>\$ 1,987,635</u>	<u>\$ 2,122,953</u>	<u>\$ 4,110,588</u>	<u>\$ 104,858</u>	<u>\$ 843,474</u>	<u>\$ 948,332</u>