
**THE FOUNDATION FOR CREATIVE
BROADCASTING, INC.**

**INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS**

SEPTEMBER 30, 2019 AND 2018

THE FOUNDATION FOR CREATIVE BROADCASTING, INC.

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THE FOUNDATION FOR CREATIVE BROADCASTING, INC.
STATEMENTS OF FINANCIAL POSITION

September 30, 2019 and 2018

ASSETS

	2019	2018
CURRENT ASSETS		
Cash and cash equivalents	\$ 448,891	\$ 271,560
Accounts receivable	25,282	24,935
Prepaid expenses and other current assets	7,091	19,532
Total current assets	481,264	316,027
PROPERTY AND EQUIPMENT		
Land	11,160	11,160
Buildings and improvements	304,479	300,229
Furniture and equipment	62,102	62,102
Broadcast equipment	521,846	519,325
Construction in process	24,590	-
Total	924,177	892,816
Less accumulated depreciation	712,660	673,803
Total property and equipment, net	211,517	219,013
OTHER ASSETS		
Music library collection	48,657	48,657
Loan fees	-	15
Total other assets	48,657	48,672
Total assets	\$ 741,438	\$ 583,712

The Notes to Financial Statements are an integral part of these statements

THE FOUNDATION FOR CREATIVE BROADCASTING, INC.
STATEMENTS OF FINANCIAL POSITION

September 30, 2019 and 2018

LIABILITIES AND NET ASSETS

	2019	2018
CURRENT LIABILITIES		
Accounts payable	\$ 5,668	\$ 6,895
Accrued payroll and related taxes	16,247	13,207
Due to Corporation for Public Broadcasting	9,050	9,050
Current portion of long-term debt	-	858
	<u>30,965</u>	<u>30,010</u>
Total current liabilities		
 LONG-TERM LIABILITIES		
Deferred rent	25,854	16,663
Total liabilities	<u>56,819</u>	<u>46,673</u>
 NET ASSETS		
Without donor restrictions	633,283	434,506
With donor restrictions	51,336	102,533
Total net assets	<u>684,619</u>	<u>537,039</u>
Total liabilities and net assets	<u>\$ 741,438</u>	<u>\$ 583,712</u>

The Notes to Financial Statements are an integral part of these statements

THE FOUNDATION FOR CREATIVE BROADCASTING, INC.

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2019

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
REVENUES			
Memberships	\$ 570,270	\$ -	\$ 570,270
Underwriting	179,911	-	179,911
Capital campaign	-	1,690	1,690
Fundraising events	26,447	-	26,447
Other program service revenue	1,082	-	1,082
Corporation for Public Broadcasting grants	65,255	23,564	88,819
Other grant revenues	59,700	50,000	109,700
Barter transactions - services and supplies	45,531	-	45,531
In-kind revenue	325	-	325
Donations	25,358	-	25,358
Other income	11,163	-	11,163
Net assets released from restrictions	126,451	(126,451)	-
Total revenues	\$ 1,111,493	\$ (51,197)	\$ 1,060,296
EXPENSES			
Program services			
Programming	510,025	-	510,025
Community events	56,070	-	56,070
Total program services	566,095	-	566,095
Supporting services			
Membership development and fundraising	149,954	-	149,954
Underwriting solicitation	116,982	-	116,982
Management and general	79,685	-	79,685
Total supporting services	346,621	-	346,621
Total expenses	912,716	-	912,716
CHANGE IN NET ASSETS	198,777	(51,197)	147,580
NET ASSETS, BEGINNING OF YEAR	434,506	102,533	537,039
NET ASSETS, END OF YEAR	\$ 633,283	\$ 51,336	\$ 684,619

The Notes to Financial Statements are an integral part of these statements

THE FOUNDATION FOR CREATIVE BROADCASTING, INC.

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2018

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
REVENUES			
Memberships	\$ 357,370	\$ -	\$ 357,370
Underwriting	189,396	-	189,396
Capital campaign	-	6,320	6,320
Fundraising events	9,711	-	9,711
Other program service revenue	250	-	250
Corporation for Public Broadcasting grants	69,143	24,586	93,729
Other grant revenues	18,225	3,500	21,725
Barter transactions - services and supplies	60,421	-	60,421
In-kind revenue	28,526	-	28,526
Donations	102,460	-	102,460
Other income	132,867	-	132,867
Net assets released from restrictions	118,957	(118,957)	-
Total revenues	1,087,326	(84,551)	1,002,775
EXPENSES			
Program services			
Programming	468,428	-	468,428
Community events	70,909	-	70,909
Total program services	539,337	-	539,337
Supporting services			
Membership development and fundraising	137,331	-	137,331
Underwriting solicitation	135,087	-	135,087
Management and general	82,828	-	82,828
Total supporting services	355,246	-	355,246
Total expenses	894,583	-	894,583
CHANGE IN NET ASSETS	192,743	(84,551)	108,192
NET ASSETS, BEGINNING OF YEAR, RESTATED	241,763	187,084	428,847
NET ASSETS, END OF YEAR	\$ 434,506	\$ 102,533	\$ 537,039

The Notes to Financial Statements are an integral part of these statements

THE FOUNDATION FOR CREATIVE BROADCASTING, INC.
STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended September 30, 2019

	Program Services			Supporting Services				Total
	Programming	Community Events	Total Program Services	Membership Development and Fundraising	Underwriting	Management and General	Total Supporting Services	
Personnel costs	\$ 279,653	\$ 8,392	\$ 288,045	\$ 84,627	\$ 46,246	\$ 23,878	\$ 154,751	\$ 442,796
Dues and subscriptions	1,555	464	2,019	2,070	959	1,010	4,039	6,058
Professional and contract services	23,481	7,126	30,607	6,254	4,876	23,012	34,142	64,749
Computer expense	313	509	822	61	7,296	509	7,866	8,688
Staff travel	1,034	1,035	2,069	949	-	-	949	3,018
Rent	91,426	-	91,426	-	-	-	-	91,426
Utilities	1,461	1,463	2,924	1,463	1,463	1,463	4,389	7,313
Repairs and maintenance	17,295	5,199	22,494	3,848	3,403	3,844	11,095	33,589
Insurance	2,561	4,287	6,848	2,560	2,560	4,973	10,093	16,941
Membership premiums	-	-	-	20,506	-	-	20,506	20,506
Printing	755	248	1,003	452	332	221	1,005	2,008
Program acquisition and supplies	65,453	-	65,453	-	-	-	-	65,453
Supplies	3,271	717	3,988	4,767	1,155	1,120	7,042	11,030

The Notes to Financial Statements are an integral part of these statements

THE FOUNDATION FOR CREATIVE BROADCASTING, INC.
STATEMENT OF FUNCTIONAL EXPENSES (continued)

For the Year Ended September 30, 2019

	Program Services			Supporting Services				Total
	Programming	Community Events	Total Program Services	Membership Development and Fundraising	Underwriting	Management and General	Total Supporting Services	
Telephone and internet	4,493	2,507	7,000	1,900	884	1,899	4,683	11,683
Fundraising	560	1,654	2,214	3,987	559	560	5,106	7,320
Advertising and marketing	1,286	9,168	10,454	3,312	1,175	1,175	5,662	16,116
Miscellaneous	4,342	2,219	6,561	2,116	1,460	4,489	8,065	14,626
Interest and bank charges	3,400	3,395	6,795	3,395	3,395	3,395	10,185	16,980
Depreciation and amortization	7,684	7,684	15,368	7,684	7,684	8,134	23,502	38,870
Barter transactions - donated services and supplies	-	-	-	-	33,532	-	33,532	33,532
Mortgage interest	2	3	5	3	3	3	9	14
Total	<u>\$ 510,025</u>	<u>\$ 56,070</u>	<u>\$ 566,095</u>	<u>\$ 149,954</u>	<u>\$ 116,982</u>	<u>\$ 79,685</u>	<u>\$ 346,621</u>	<u>\$ 912,716</u>

The Notes to Financial Statements are an integral part of these statements

THE FOUNDATION FOR CREATIVE BROADCASTING, INC.
STATEMENT OF FUNCTIONAL EXPENSES (continued)

For the Year Ended September 30, 2018

	Program Services			Supporting Services				Total
	Programming	Community Events	Total Program Services	Membership Development and Fundraising	Underwriting	Management and General	Total Supporting Services	
Personnel costs	\$ 240,847	\$ 7,228	\$ 248,075	\$ 72,884	\$ 39,829	\$ 20,564	\$ 133,277	\$ 381,352
Dues and subscriptions	1,670	499	2,169	2,224	1,031	1,086	4,341	6,510
Professional and contract services	27,878	8,460	36,338	7,425	5,789	27,320	40,534	76,872
Computer expense	827	893	1,720	107	12,798	893	13,798	15,518
Staff travel	224	224	448	205	-	-	205	653
Rent	104,897	-	104,897	-	-	-	-	104,897
Utilities	1,487	1,485	2,972	1,485	1,485	1,485	4,455	7,427
Repairs and maintenance	16,737	8,949	25,686	6,623	5,857	6,617	19,097	44,783
Insurance	2,446	4,095	6,541	2,446	2,446	4,750	9,642	16,183
Membership premiums	-	-	-	11,855	-	-	11,855	11,855
Printing	718	143	861	260	191	127	578	1,439
Program acquisition and supplies	40,236	-	40,236	-	-	-	-	40,236
Supplies	2,247	854	3,101	5,679	1,376	1,375	8,430	11,531

The Notes to Financial Statements are an integral part of these statements

THE FOUNDATION FOR CREATIVE BROADCASTING, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended September 30, 2018

	Program Services			Supporting Services				Total
	Programming	Community Events	Total Program Services	Membership Development and Fundraising	Underwriting	Management and General	Total Supporting Services	
Telephone and internet	11,681	2,330	14,011	1,765	822	1,764	4,351	18,362
Fundraising	641	1,897	2,538	4,573	642	642	5,857	8,395
Advertising and marketing	3,076	21,925	25,001	7,919	2,810	2,810	13,539	38,540
Miscellaneous	1,875	985	2,860	939	648	1,992	3,579	6,439
Interest and bank charges	3,003	3,001	6,004	3,001	3,001	3,001	9,003	15,007
Depreciation and amortization	7,874	7,876	15,750	7,876	7,876	8,337	24,089	39,839
Barter transactions - donated services and supplies	-	-	-	-	48,421	-	48,421	48,421
Mortgage interest	64	65	129	65	65	65	195	324
Total	<u>\$ 468,428</u>	<u>\$ 70,909</u>	<u>\$ 539,337</u>	<u>\$ 137,331</u>	<u>\$ 135,087</u>	<u>\$ 82,828</u>	<u>\$ 355,246</u>	<u>\$ 894,583</u>

The Notes to Financial Statements are an integral part of these statements

THE FOUNDATION FOR CREATIVE BROADCASTING, INC.
STATEMENTS OF CASH FLOWS

For the Years Ended September 30, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 147,580	\$ 108,192
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	38,871	39,840
Increase (decrease) in cash resulting from changes in		
Accounts receivable	(347)	(5,812)
Prepaid expenses and other assets	12,441	(753)
Accounts payable	(1,227)	5,248
Accrued payroll and related taxes	3,040	4,496
Deferred rent	9,191	(125,810)
Net cash provided by operating activities	209,549	25,401
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(31,360)	(11,523)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on notes payable	(858)	(9,168)
Net cash (used) by financing activities	(858)	(9,168)
Net increase in cash	177,331	4,710
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	271,560	266,850
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 448,891	\$ 271,560
SUPPLEMENTAL DISCLOSURE		
Cash paid for interest	\$ 14	\$ 324

The Notes to Financial Statements are an integral part of these statements

THE FOUNDATION FOR CREATIVE BROADCASTING, INC.

NOTES TO FINANCIAL STATEMENTS

September 30, 2019 and 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Foundation for Creative Broadcasting, Inc. (the “Foundation”) is a nonprofit organization whose stated purpose is to act as an educational foundation for the creative use of media; encouraging community access to media and promoting the development of art in media, primarily, but not limited to, noncommercial educational broadcasting. The Foundation operates a noncommercial community radio station in Tucson, Arizona (KXCI-FM 91.3). The Foundation’s main sources of revenue include membership fees, underwriting, and grant revenue.

Basis of Accounting

The financial statements of the Foundation, have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

Change in Accounting Principles

The Foundation has implemented amendments contained in ASU No. 2016-14 - Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. This guidance is intended to improve the presentation of the financial statements and notes for not-for-profit entities. The main provisions of this guidance include: presentation of two classes of net assets; presentation of expenses by both natural and functional allocations; and the recognition of underwater endowment funds as a reduction in net assets with donor restrictions. The guidance also enhances disclosures for board designated amounts, composition of net assets with and without donor restrictions, liquidity, cost allocation methods and underwater endowments. The Foundation adopted the amendments for the fiscal year beginning October 1, 2018. Upon adoption, the ASU requires the amendments to be applied on a retrospective basis. Accordingly, 2018 has been restated to apply the amendments of ASU No. 2016-14.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Classification of Net Assets

The financial statements of the Foundation have been prepared in accordance with U.S. generally accepted accounting principles ("US GAAP"), which require the Foundation to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Foundation's management and the board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Foundation or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

Revenue Recognition

Contributions received are recorded as support without donor restrictions or with donor restrictions depending on the existence and/or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or when the purpose of the restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets without donor restrictions.

Membership revenues are considered unrestricted support of the Foundation and are recognized as revenue in the period received. Members receive benefits, including the monthly newsletter, music products donated to the Foundation, KXCI T-shirts, and discounts at Foundation events.

Underwriting revenues are recognized when the spot is broadcast; underwriting receivables are written off when an account is deemed uncollectible. Newsletter advertising is recognized in the month of the printed advertisement.

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, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of support, revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, cash in banks, and investments with original maturities of three months or less. The Foundation maintains its cash balances in one financial institution. At September 30, 2019 the Foundation had approximately \$208,000 of cash in excess of the Federal Deposit Insurance Corporation limits, however, management does not believe it is exposed to any significant credit risk on cash.

Collections

The Foundation capitalizes its music library collection. Additions are capitalized at cost if purchased and at appraised or fair value if received by donation. Items received as promotions from record companies are not recorded in the financial statements. No depreciation or amortization is recorded on the collection.

The Foundation continually reviews its collections and may deaccession items. Proceeds from deaccessions are classified as net assets without donor restrictions, except when donor restrictions apply.

Property and Equipment

Property and equipment is stated at cost except for donated property, which is recorded at fair market value at the date of gift. Assets with an estimated useful life greater than one year and cost greater than \$2,500 are capitalized. Depreciation is calculated using the straight-line method over the asset's estimated useful life. Depreciable asset classifications and the range of estimated lives are summarized below:

<u>Asset classification</u>	<u>Life</u>
Buildings and improvements	4 - 39 years
Furniture and equipment	3 - 7 years
Broadcast equipment	7 - 10 years

Grants

Certain grants are restricted for the purchase of equipment and for the payment of certain operational expenses. When the Foundation is notified as a recipient of these grants, the amounts are included as restricted revenue in the accompanying statements of activities.

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Corporation for Public Broadcasting Community Service Grants

The Corporation for Public Broadcasting (“CPB”) is a private, nonprofit grant-making organization responsible for funding nearly 1,500 locally-owned and -operated public television and radio stations. CPB distributes annual Community Service Grants (“CSGs”) to qualifying noncommercial public broadcasting entities. CSGs are used to augment the financial resources of public broadcasting entities and, thereby, to enhance the quality of programming and expand the scope of public broadcasting services. Each CSG may be expended over one or two federal fiscal years as described in the

Communications Act, 47 United States Code Annotated, Section 396(k)(7). In any event, each grant must be expended within two years of the initial grant authorization.

According to the Communications Act, funds may be used at the discretion of recipients for purposes relating primarily to production and acquisition of programming. In addition, the grants may be used to sustain activities begun with CSGs awarded in prior years.

Certain general provisions must be satisfied in connection with application for and use of the grants to maintain eligibility and meet compliance requirements. These general provisions pertain to the use of grant funds, record keeping, audits, financial reporting, mailing lists, and licensee status with the Federal Communications Commission.

The CSGs are reported in the accompanying financial statements as increases in net assets with donor restrictions until satisfaction of the time and purpose restrictions, after which they are reported as a release from net assets with donor restrictions and an increase in net assets without donor restrictions.

Barter Transactions

Barter transactions are recorded as revenue and expense in the accompanying statements of activities at the estimated value of airtime exchanged in the transaction.

Advertising

The Foundation uses advertising to promote its programs among the audiences it serves. The production costs of advertising are expensed as incurred. Advertising costs totaled \$16,116 and \$38,540 for the years ended September 30, 2019 and 2018, respectively.

In-Kind Contributions

Contributions of services are recognized as income if the services received (a) create or enhance non-financial assets or (b) requires specialized skills and would typically need to be purchased if not donated. Donated services are recorded at their fair values in the period received. Total donated professional services meeting the criteria for recognition and recorded for the year ended September 30, 2019 and 2018 were \$325 and \$28,526, respectively. Contributions of donated non-cash assets are recorded at fair values in the period received. No non-cash assets were received for the years ended September 30, 2019 and 2018.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Other expenses that are common to several functions are allocated based on time and effort.

Income Taxes

The Foundation is organized as an Arizona nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code as organizations described in Section 501(c)(3), qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi) and (viii), and has been determined not to be private foundations under Sections 509(a)(1) and (3), respectively. The Foundation is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Foundation is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purposes. The Foundation has determined it is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

The Foundation believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Foundation would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

Recent Accounting Pronouncements

- Revenue Recognition

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606), that will supersede the current revenue recognition requirements in Topic 605, Revenue Recognition. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The original implementation effective date was deferred upon the issuance of ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date. The new guidance will be effective for the Foundation's year ending September 30, 2020. The ASU permits application of the new revenue recognition

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

guidance to be applied using one of two retrospective application methods. The Foundation has not yet determined which application method it will use or the potential effects on the new standard on the financial statements, if any.

- Leases

In February 2016, the Financial Accounting Standards Board issued ASU No. 2016-02, Leases (Topic 842), that will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-of-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either financing or operating, with the classification affecting the pattern of expense recognition in the statement of operations. Currently, leases are classified as either capital or operating, with only capital lease obligations recognized on the statement of financial position. Lessor accounting under the new standard will remain similar to lessor accounting under current GAAP. The reporting of lease-related expenses in the statements of operations and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for the Foundation's year ending September 30, 2021 and will be applied using a modified retrospective transition method to the beginning of the earliest period presented. The effect of applying the new lease guidance on the financial statements has not yet been determined.

- Non-Profit Organizations

In June 2018, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2018-08. These amendments clarify and improve the scope and accounting guidance around contributions of cash and other assets received and made by not-for-profit organizations (NFPs) and business enterprises. The ASU clarifies and improves current guidance about whether a transfer of assets, or the reduction, settlement, or cancellation of liabilities, is a contribution or an exchange transaction. It provides criteria for determining whether the resource provider is receiving commensurate value in return for the resources transferred which, depending on the outcome, determines whether the organization follows contribution guidance or exchange transaction guidance in the revenue recognition and other applicable standards. It also provides a more robust framework for determining whether a contribution is conditional or unconditional, and for distinguishing a donor-imposed condition from a donor-imposed restriction. This is important because such classification affects the timing of contribution revenue and expense recognition. The new ASU does not apply to transfers of assets from governments to businesses. The new guidance for contributions received and contributions made will be effective for the Foundation's year ending September 30, 2020 and 2021, respectively. The ASU prescribes application of the new revenue recognition guidance to be applied using a modified prospective application method, however retrospective application is permitted. The Organization has not yet determined which application method it will use or the potential effects on the new standard on the financial statements, if any.

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2. ACCOUNTS RECEIVABLE

Accounts receivable at September 30, 2019 and 2018 are comprised of the following:

	<u>2019</u>	<u>2018</u>
Membership	\$ 5,444	\$ -
Underwriting and newsletter advertising	<u>19,838</u>	<u>24,935</u>
	<u>\$ 25,282</u>	<u>\$ 24,935</u>

The Foundation has determined that there should be no receivable recorded for Membership beyond the fiscal year end. Other receivables are written off when deemed uncollectible. The total loss if all parties fail to perform and collection efforts prove to be ineffective is the stated balance of \$25,282 at September 30, 2019. The Foundation has no liens to reduce this credit risk. Management believes all outstanding accounts receivable to be collectible at September 30, 2019.

3. LONG-TERM DEBT

	<u>2019</u>	<u>2018</u>
Mortgage note payable, dated August 1998, due in monthly installments of \$863 including interest at 6.0%, due September 2018. Collateralized by real property.	\$ -	\$ 858
Less current portion of long-term debt	<u>-</u>	<u>858</u>
Total, net of current maturities	<u>\$ -</u>	<u>\$ -</u>

4. OPERATING LEASES

The Foundation leases tower facilities under an operating lease which was renegotiated during the 2018 and expires July 2031. Under the original lease, the payments were amortized on a straight-line basis over the term of the lease, and the renegotiation reduced the rent escalation and resulted in a reduction in the deferred rent. At September 30, 2019, \$25,854 was reported as a liability to accrue the lease expense on a straight-line basis (\$16,663 for 2018). The write-off of deferred rent in 2018 is included in other income in the accompanying statement of activities. Beginning January 1, 2018, the monthly rent is \$4,000 through September 2018 plus utility charges; the lease payments are to be increased annually by 3% on October 1st of each year of the agreement.

In 2014, the Foundation entered into a five-year agreement to lease space on an auxiliary broadcasting tower. The lease expired May 2019, and the Foundation has the option to renew the lease for three additional five-year periods. The monthly rent was \$1,000 through May 2019, plus utility charges and taxes. Rent will increase by 5% at the beginning of each renewal period. As of September 30, 2019, the lease had not been renewed and was on a month-to-month basis.

In 2016, the Foundation entered into a five-year lease agreement for auxiliary broadcast studio space, located inside Hotel Congress in downtown Tucson. The lease expires June 2021, and the Foundation has the option to renew the lease for an additional five-year term. The monthly rent is \$1,500 through

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4. OPERATING LEASES (continued)

June 2021, a portion of which is paid through in-kind underwriting services, with an initial six-month period of rent forgiveness.

Total lease expense for the years ended September 30, 2019 and 2018 was \$91,426 and \$104,897, respectively.

Future minimum lease payments are as follows:

Year Ended September 30

2020	\$ 68,923
2021	65,951
2022	54,024
2023	55,645
2024	57,315
Thereafter	<u>440,597</u>
Total	<u>\$ 742,455</u>

5. FAIR VALUE MEASUREMENTS

United States generally accepted accounting principles establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs have the lowest priority. The Foundation uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Foundation measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value.

Level 1 Fair Value Measurements are based on quoted prices (unadjusted) in active markets for identical assets that the reporting entity has the ability to access at the measurement date. An active market for the asset is a market in which transactions for the asset occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 Fair Value Measurements are based on inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly. If the asset has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset.

(continued)

5. FAIR VALUE MEASUREMENTS

Level 3 Fair Value Measurements are based on unobservable inputs for the asset. Unobservable inputs shall be used to measure fair value to the extent that relevant observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset at the measurement date. However, the fair value measurement objective remains the same, that is, an exit price from the perspective of a market participant that holds the asset. Therefore, unobservable inputs shall reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the assets (including assumptions about risk). Unobservable inputs shall be developed based on the best information available in the circumstances, which might include the reporting entity's own data.

The music collection library valuation was valued as a level 2 valuation and was based on an appraisal which is periodically reviewed for impairment. These fair values are on a non-recurring basis. Management estimates these values to be reasonable.

Fair value measurements were reported based on the following:

		Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		<u>Fair Value</u>		
September 30, 2019				
Music Collection Library	<u>\$ 48,657</u>	<u>\$ -</u>	<u>\$ 48,657</u>	<u>\$ -</u>

		Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		<u>Fair Value</u>		
September 30, 2018				
Music Collection Library	<u>\$ 48,657</u>	<u>\$ -</u>	<u>\$ 48,657</u>	<u>\$ -</u>

(continued)

6. NET ASSETS WITH DONOR RESTRICTIONS

Donor restricted activity consists of various funds raised and expensed during the years ended September 30, 2019 and 2018. Donor restricted net asset balances at year end consist of the following:

<u>Year Ended September 30,</u>	<u>2019</u>	<u>2018</u>
Capital Campaign	\$ 30,175	\$ 99,033
Studio Upgrade	21,161	-
Alliance Fund	<u>-</u>	<u>3,500</u>
Total	<u>\$ 51,336</u>	<u>\$ 102,533</u>

Net assets released from net assets with donor restrictions are as follows:

<u>Satisfaction of Purpose Restrictions</u>	<u>2019</u>	<u>2018</u>
CSG- National Programming	\$ 23,564	\$ 32,886
Studio Upgrade	28,839	-
LGBTQ+ Programming	3,500	-
Capital Campaign	<u>70,548</u>	<u>86,071</u>
Total	<u>\$ 126,451</u>	<u>\$ 118,957</u>

7. PRIOR PERIOD ADJUSTMENT

As discussed in Note 1, the Foundation receives Community Service Grants (“CSGs”) from the Corporation for Public Broadcasting (“CPB”). A portion of the CSGs is contractually restricted specifically to be used for acquiring or producing programming that is to be distributed nationally and is designed to serve the needs of a national audience. Additionally, the contractually-imposed restricted CSG funds must be used within 2 years of receipt. In years prior to 2015, not all expenses that met the restricted requirements were allocated to the contractually-imposed restricted CSG funds. As such, expenditures appeared to not be made within the required 2 years and were recorded as a payable to Corporation for Public Broadcasting. During 2018 and 2019, the Foundation performed a study of expenses related to programming of nationally distributed programs and determined there were expenses not allocated to the contractually-imposed restricted CSG funds. These expenses were reclassified and resulted in a reduction to the payable and an increase in net assets in the year ended September 30, 2018 of \$61,009. Final resolution of the payable is contingent upon CPB’s acceptance.

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8. AVAILABILITY AND LIQUIDITY

The following represents the Foundation's financial assets at September 30, 2019:

Financial assets at year-end:	
Cash and cash equivalents	\$ 448,891
Accounts receivable	<u>25,282</u>
Total financial assets	<u>474,173</u>
Less amounts not available to be used within one year:	
Net assets with donor restrictions	<u>51,336</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 422,837</u>

9. SUBSEQUENT EVENTS

Subsequent to September 30, 2019, the Foundation established an approved non-endowed fund in partnership with the Community Foundation of Southern Arizona and authorized a transfer of \$25,000 to the fund.

In January 2020, the Foundation became aware that the Corporation for Public Broadcasting was withholding its fiscal year 2020 CSG funding until resolution of the payable of CSG funds. See Note 7 for further details on the amounts due to the Corporation for Public Broadcasting. The Foundation intends to repay the remaining amount due of \$9,050 and anticipates the Corporation for Public Broadcasting to distribute the remaining amount of the 2020 CSG grant.

Management has evaluated subsequent events through **February XX, 2020** the date the financial statements were available to be issued.

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