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

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

SEPTEMBER 30, 2020 AND 2019



THE FOUNDATION FOR CREATIVE BROADCASTING, INC.

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
The Foundation for Creative Broadcasting, Inc.
Tucson, Arizona

We have audited the accompanying financial statements of The Foundation for Creative Broadcasting, Inc. (a nonprofit organization), which comprise the statements of financial position as of September 30, 2020 and 2019, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

(continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Foundation for Creative Broadcasting, Inc. as of September 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Regier Cant & Monroe, L.L.P.

March 5, 2021
Tucson, Arizona

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

September 30, 2020 and 2019

ASSETS

| | 2020 | 2019 |
|---|--------------|------------|
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 776,255 | \$ 448,891 |
| Accounts receivable | 13,920 | 25,282 |
| Prepaid expenses and other current assets | 4,622 | 7,091 |
| Total current assets | 794,797 | 481,264 |
| INVESTMENTS | | |
| Beneficial interest in community foundation | 25,319 | - |
| PROPERTY AND EQUIPMENT | | |
| Land | 11,160 | 11,160 |
| Buildings and improvements | 330,167 | 304,479 |
| Furniture and equipment | 62,102 | 62,102 |
| Broadcast equipment | 521,846 | 521,846 |
| Construction in process | - | 24,590 |
| Total | 925,275 | 924,177 |
| Less accumulated depreciation | 754,125 | 712,660 |
| Total property and equipment, net | 171,150 | 211,517 |
| OTHER ASSETS | | |
| Music library collection | 48,657 | 48,657 |
| Total other assets | 48,657 | 48,657 |
| Total assets | \$ 1,039,923 | \$ 741,438 |

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

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

September 30, 2020 and 2019

LIABILITIES AND NET ASSETS

| | 2020 | 2019 |
|---|--------------|------------|
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 22,964 | \$ 5,668 |
| Accrued payroll and related taxes | 1,735 | 16,247 |
| Due to Corporation for Public Broadcasting | - | 9,050 |
| Current portion of long-term debt - Paycheck Protection Program | 24,519 | - |
| Total current liabilities | 49,218 | 30,965 |
| LONG-TERM LIABILITIES | | |
| Deferred rent | 33,561 | 25,854 |
| Long-term debt - Paycheck Protection Program | 66,801 | - |
| Total long-term liabilities | 100,362 | 25,854 |
| Total liabilities | 149,580 | 56,819 |
| NET ASSETS | | |
| Without donor restrictions | 846,848 | 633,283 |
| With donor restrictions | 43,495 | 51,336 |
| Total net assets | 890,343 | 684,619 |
| Total liabilities and net assets | \$ 1,039,923 | \$ 741,438 |

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, 2020

| | Net Assets Without Donor Restrictions | Net Assets With Donor Restrictions | Total |
|---|--|--|-------------------|
| REVENUES | | | |
| Memberships | \$ 433,629 | \$ - | \$ 433,629 |
| Underwriting | 134,706 | - | 134,706 |
| Capital campaign | - | 2,700 | 2,700 |
| Fundraising events | 11,063 | - | 11,063 |
| Other program service revenue | 2,954 | - | 2,954 |
| Corporation for Public Broadcasting grants | 144,789 | 25,383 | 170,172 |
| Other grant revenues | 117,500 | 40,500 | 158,000 |
| Barter transactions - services and supplies | 51,635 | - | 51,635 |
| Donations | 142,543 | - | 142,543 |
| Other income | 4,860 | - | 4,860 |
| Net assets released from restrictions | 76,424 | (76,424) | - |
| | <u>1,120,103</u> | <u>(7,841)</u> | <u>1,112,262</u> |
| EXPENSES | | | |
| Program services | | | |
| Programming | 509,270 | - | 509,270 |
| Community events | 54,012 | - | 54,012 |
| Total program services | <u>563,282</u> | <u>-</u> | <u>563,282</u> |
| Supporting services | | | |
| Membership development and fundraising | 141,348 | - | 141,348 |
| Underwriting solicitation | 125,684 | - | 125,684 |
| Management and general | 76,224 | - | 76,224 |
| Total supporting services | <u>343,256</u> | <u>-</u> | <u>343,256</u> |
| Total expenses | <u>906,538</u> | <u>-</u> | <u>906,538</u> |
| CHANGE IN NET ASSETS | 213,565 | (7,841) | 205,724 |
| NET ASSETS, BEGINNING OF YEAR | <u>633,283</u> | <u>51,336</u> | <u>684,619</u> |
| NET ASSETS, END OF YEAR | <u>\$ 846,848</u> | <u>\$ 43,495</u> | <u>\$ 890,343</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 | <u>1,111,493</u> | <u>(51,197)</u> | <u>1,060,296</u> |
| EXPENSES | | | |
| Program services | | | |
| Programming | 510,025 | - | 510,025 |
| Community events | 56,070 | - | 56,070 |
| Total program services | <u>566,095</u> | <u>-</u> | <u>566,095</u> |
| 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 | <u>346,621</u> | <u>-</u> | <u>346,621</u> |
| Total expenses | <u>912,716</u> | <u>-</u> | <u>912,716</u> |
| CHANGE IN NET ASSETS | 198,777 | (51,197) | 147,580 |
| NET ASSET, BEGINNING OF YEAR, RESTATED | <u>434,506</u> | <u>102,533</u> | <u>537,039</u> |
| NET ASSETS, END OF YEAR | <u><u>\$ 633,283</u></u> | <u><u>\$ 51,336</u></u> | <u><u>\$ 684,619</u></u> |

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, 2020

| | Program Services | | | Supporting Services | | | | Total |
|------------------------------------|------------------|------------------|------------------------|--|--------------|------------------------|---------------------------|------------|
| | Programming | Community Events | Total Program Services | Membership Development and Fundraising | Underwriting | Management and General | Total Supporting Services | |
| Personnel costs | \$ 302,040 | \$ 9,064 | \$ 311,104 | \$ 91,402 | \$ 49,949 | \$ 25,789 | \$ 167,140 | \$ 478,244 |
| Dues and subscriptions | 1,076 | 321 | 1,397 | 1,431 | 663 | 698 | 2,792 | 4,189 |
| Professional and contract services | 19,951 | 6,054 | 26,005 | 5,314 | 4,143 | 19,552 | 29,009 | 55,014 |
| Computer expense | 744 | 1,369 | 2,113 | 164 | 19,621 | 1,369 | 21,154 | 23,267 |
| Staff travel | 890 | 891 | 1,781 | 817 | - | - | 817 | 2,598 |
| Rent | 117,381 | - | 117,381 | - | - | - | - | 117,381 |
| Utilities | 1,336 | 1,337 | 2,673 | 1,337 | 1,337 | 1,337 | 4,011 | 6,684 |
| Repairs and maintenance | 7,718 | 3,442 | 11,160 | 2,547 | 2,253 | 2,545 | 7,345 | 18,505 |
| Insurance | 2,514 | 4,212 | 6,726 | 2,516 | 2,516 | 4,886 | 9,918 | 16,644 |
| Membership premiums | - | - | - | 11,283 | - | - | 11,283 | 11,283 |
| Printing | 228 | 75 | 303 | 136 | 100 | 66 | 302 | 605 |
| Program acquisition and supplies | 29,473 | - | 29,473 | - | - | - | - | 29,473 |
| Supplies | 4,662 | 624 | 5,286 | 4,152 | 1,006 | 976 | 6,134 | 11,420 |

(continued)

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, 2020

| | 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 | 4,796 | 2,676 | 7,472 | 2,028 | 944 | 2,026 | 4,998 | 12,470 |
| Fundraising | 173 | 514 | 687 | 1,239 | 174 | 174 | 1,587 | 2,274 |
| Advertising and marketing | 1,401 | 9,986 | 11,387 | 3,607 | 1,280 | 1,280 | 6,167 | 17,554 |
| Miscellaneous | 2,998 | 1,562 | 4,560 | 1,490 | 1,028 | 3,161 | 5,679 | 10,239 |
| Interest and bank charges | 3,692 | 3,688 | 7,380 | 3,688 | 3,688 | 3,688 | 11,064 | 18,444 |
| Depreciation and amortization | 8,197 | 8,197 | 16,394 | 8,197 | 8,197 | 8,677 | 25,071 | 41,465 |
| Barter transactions - donated services and supplies | - | - | - | - | 28,785 | - | 28,785 | 28,785 |
| Total | \$ 509,270 | \$ 54,012 | \$ 563,282 | \$ 141,348 | \$ 125,684 | \$ 76,224 | \$ 343,256 | \$ 906,538 |

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 |

(continued)

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.
STATEMENTS OF CASH FLOWS

For the Years Ended September 30, 2020 and 2019

| | 2020 | 2019 |
|--|------------|------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ 205,724 | \$ 147,580 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities | | |
| Depreciation and amortization | 41,465 | 38,871 |
| Increase (decrease) in cash resulting from changes in | | |
| Accounts receivable | 11,362 | (347) |
| Prepaid expenses and other assets | 2,469 | 12,441 |
| Accounts payable | 17,296 | (1,227) |
| Accrued payroll and related taxes | (14,512) | 3,040 |
| Due to Corporation for Public Broadcasting | (9,050) | - |
| Deferred rent | 7,707 | 9,191 |
| Net cash provided by operating activities | 262,461 | 209,549 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of property and equipment | (1,098) | (31,360) |
| Investment in community foundation | (25,319) | - |
| Net cash (used in) financing activities | (26,417) | (31,360) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Principal payments on notes payable | - | (858) |
| Proceeds from long-term debt | 91,320 | - |
| Net cash provided by (used in) financing activities | 91,320 | (858) |
| Net increase in cash | 327,364 | 177,331 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 448,891 | 271,560 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | \$ 776,255 | \$ 448,891 |
| SUPPLEMENTAL DISCLOSURE | | |
| Cash paid for interest | \$ - | \$ 14 |

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

THE FOUNDATION FOR CREATIVE BROADCASTING, INC.

NOTES TO FINANCIAL STATEMENTS

September 30, 2020 and 2019

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.

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.

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

ASU 2018-08

During the year, the Foundation adopted the provisions of FASB ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (Topic 958). This accounting standard is meant to help not-for-profit entities evaluate whether transactions should be accounted for as contributions or as exchange transactions and, if the transaction is identified as a contribution, whether it is conditional or unconditional. ASU 2018-08 clarifies how an organization determines whether a resource provider is receiving commensurate value in return for a grant. If the resource provider does receive commensurate value from the grant recipient, the transaction is an exchange transaction and would follow the guidance under ASU 2014-09 (FASB ASC Topic 606). If no commensurate value is received by the grant maker, the transfer is a contribution. ASU 2018-08 stresses that the value received by the general public as a result of the grant is not considered to be commensurate value received by the provider of the grant. Results for reporting for the year ending September 30, 2020 are presented under FASB ASU 2018-08. The comparative information has not been restated and continues to be reported under the accounting standards in effect in those periods. There was no material impact to the financial statements as a result of adoption. Accordingly, no adjustment to opening net assets was recorded.

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, 2020, the Foundation had approximately \$541,500 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.

Investments

In accordance with accounting principles applicable to nonprofit organizations in the United States of America; investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statement of financial position. Unrealized gains and losses are included with the change in net assets.

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 |

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 \$17,554 and \$16,116 for the years ended September 30, 2020 and 2019, respectively.

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2020 and 2019 were \$- and \$325, 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, 2020 and 2019.

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.

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2021. The ASU permits application of the new revenue recognition 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, 2023 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.

(continued)

2. ACCOUNTS RECEIVABLE

Accounts receivable at September 30, 2020 and 2019, are comprised of the following:

| | <u>2020</u> | <u>2019</u> |
|---|------------------|------------------|
| Membership | \$ 698 | \$ 5,444 |
| Underwriting and newsletter advertising | 11,268 | 19,838 |
| Other receivable | <u>1,954</u> | <u>-</u> |
| Total | <u>\$ 13,920</u> | <u>\$ 25,282</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 \$698 at September 30, 2020. The Foundation has no liens to reduce this credit risk. Management believes all outstanding accounts receivable to be collectible at September 30, 2020.

3. BENEFICIAL INTEREST IN COMMUNITY FOUNDATION

The Foundation has a beneficial interest in an investment fund held by Community Foundation for Southern Arizona (CFSA). The beneficial interest was created in 2019 when the Foundation transferred \$25,000 to CFSA. The Foundation shall receive annual distributions from the fund, based on the spending policy as established by CFSA.

The investment funds are in the possession of CFSA. CFSA administers and manages the investment fund. The beneficial interest in the investment fund is recorded at the estimated present value of the expected future cash flows from CFSA. The fair value is estimated to equal the fair market value of the beneficial interest of the associated investments held by CFSA.

4. INVESTMENTS

Investments, stated at fair value, consist of the following at September 30:

| | |
|-------------------|------------------|
| CFSA | <u>\$ 25,319</u> |
| Total investments | <u>\$ 25,319</u> |

(continued)

4. INVESTMENTS (continued)

Investment income, which is included in other income in the statement of activities, consists of the following for the year ended September 30:

| | |
|------------------------------|---------------|
| Interest and dividend income | \$ 266 |
| Realized and unrealized gain | 383 |
| Investment fees | <u>(330)</u> |
| Total investment income, net | <u>\$ 319</u> |

5. PAYCHECK PROTECTION PROGRAM NOTE PAYABLE

On May 4, 2020, the Foundation qualified for and received a loan pursuant to the Paycheck Protection Program (“PPP”), a program implemented by the U.S. Small Business Administration (“SBA”) under the Coronavirus Aid, Relief, and Economic Security Act, from a qualified lender for an aggregate principal amount of \$91,320. Under the terms of the agreement, the loan is unsecured, there are no payments due and interest does not accrue during the period from the loan date through the date the SBA determines the loan forgiveness amount. If applicable, interest will accrue at the rate of 1.0% per annum. The Foundation may apply for forgiveness of the total loan amount, by providing evidence that the loan proceeds were used to fund eligible costs, during either an eight or twenty-four week period, and that additional criteria for forgiveness have been met. Any amount not forgiven will be payable, in full including interest, on October 4, 2022.

The Foundation is accounting for the PPP loan in accordance with FASB ASC 470, Debt and has recorded the PPP loan as debt and will recognize a gain on extinguishment when the Foundation has been legally released as the primary obligor through forgiveness approval from the lender. It is anticipated that in the fiscal year ended September 30, 2021, the funds will be fully expended and the forgiveness application will be filed and accepted. Once these conditions are met, the loan will be recognized as a gain on extinguishment. As a result, the Organization has recorded the full loan amount as debt at September 30, 2020. The Foundation plans to apply for forgiveness of the entire amount at the end of the 24-week period.

Principal maturities of the note payable are as follows at September 30:

| | |
|-------|------------------|
| 2021 | \$ 24,519 |
| 2022 | 61,295 |
| 2023 | <u>5,506</u> |
| Total | <u>\$ 91,320</u> |

(continued)

6. OPERATING LEASES

The Foundation leases tower facilities under an operating lease which was renegotiated during 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, 2020, \$33,561 was reported as a liability to accrue the lease expense on a straight-line basis (\$25,854 for 2019).

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 had 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, 2020, 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 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, 2020 and 2019, was \$117,381 and \$91,426, respectively.

Future minimum lease payments are as follows:

Year Ended September 30

| | |
|------------|-------------------|
| 2021 | \$ 65,951 |
| 2022 | 54,024 |
| 2023 | 55,645 |
| 2024 | 57,315 |
| 2025 | 59,034 |
| Thereafter | <u>381,563</u> |
| Total | <u>\$ 673,532</u> |

(continued)

7. 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.

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.

Beneficial interest in community foundation held by CFSA is valued at the fair value measured at net asset value (NAV) of the underlying investments as reported by CFSA.

(continued)

7. FAIR VALUE MEASUREMENTS (continued)

Fair value measurements were reported based on the following:

| | <u>Fair Value</u> | <u>Fair Value Measurements at Reporting Date Using</u> | | |
|--|-------------------|---|--|--|
| | | <u>Quoted Prices in Active Markets Identical Assets (Level 1)</u> | <u>Significant Observable Inputs (Level 2)</u> | <u>Significant Unobservable Inputs (Level 3)</u> |
| <u>September 30, 2020</u> | | | | |
| Music Collection Library | \$ <u>48,657</u> | \$ <u>-</u> | \$ <u>48,657</u> | \$ <u>-</u> |
| Other assets measured at NAV: | | | | |
| Beneficial interest in funds held at CFSA | \$ <u>25,319</u> | | | |

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

The table below summarizes investments measured at fair value based on net asset value (NAV) as of September 30, 2020 and 2019, respectively:

| <u>September 30, 2020</u> | <u>Fair Value</u> | <u>Unfunded Commitments</u> | <u>Redemption Frequency</u> | <u>Redemption Notice Period</u> |
|---|-------------------|---------------------------------|---------------------------------|-------------------------------------|
| Beneficial interest in trusts held by CSFA | \$ 25,319 | \$ - | See Note 3 | See Note 3 |
| <u>September 30, 2019</u> | <u>Fair Value</u> | <u>Unfunded Commitments</u> | <u>Redemption Frequency</u> | <u>Redemption Notice Period</u> |
| Beneficial interest in trusts held by CSFA | \$ - | \$ - | N/A | N/A |

(continued)

8. COMMITMENTS AND CONTINGENCIES

During the year ended September 30, 2020, the World Health Organization declared the novel coronavirus (“COVID-19”) outbreak a public health emergency. There have been mandates from federal, state, and local authorities requiring forced closures of many businesses and organizations. These forced closures could negatively impact the Foundation’s revenue and costs. While the closures and limitations are expected to be temporary, the duration of the disruption and related financial impact cannot be estimated at this time. Should the closures continue for an extended period of time or should the effects of the coronavirus continue to spread, the impact could have a material adverse effect on the Foundation’s financial position, activities and cash flow.

9. NET ASSETS WITH DONOR RESTRICTIONS

Donor restricted activity consists of various funds raised and expensed during the years ended September 30, 2020 and 2019. Donor restricted net asset balances at year end consist of the following:

| <u>Year Ended September 30,</u> | <u>2020</u> | <u>2019</u> |
|-------------------------------------|------------------|------------------|
| Capital Campaign | \$ - | \$ 30,175 |
| Studio Upgrade | 18,435 | 21,161 |
| Roof Repair and Replacement Project | 7,060 | - |
| Education | <u>18,000</u> | <u>-</u> |
| Total | <u>\$ 43,495</u> | <u>\$ 51,336</u> |

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

| <u>Satisfaction of Purpose Restrictions</u> | <u>2020</u> | <u>2019</u> |
|---|------------------|-------------------|
| CSG- National Programming | \$ 25,383 | \$ 23,564 |
| Studio Upgrade | 7,725 | 28,839 |
| LGBTQ+ Programming | - | 3,500 |
| Capital Campaign | 33,316 | 70,548 |
| Education | <u>10,000</u> | <u>-</u> |
| Total | <u>\$ 76,424</u> | <u>\$ 126,451</u> |

(continued)

10. AVAILABILITY AND LIQUIDITY

The following represents the Foundation's financial assets at September 30, 2020:

| Financial assets at year-end: | <u>2020</u> | <u>2019</u> |
|--|-------------------|-------------------|
| Cash and cash equivalents | \$ 776,255 | \$ 448,891 |
| Accounts receivable | <u>13,920</u> | <u>25,282</u> |
| Total financial assets | <u>790,175</u> | <u>474,173</u> |
| Less amounts not available to be used within one year | | |
| Net assets with donor restrictions | <u>43,495</u> | <u>51,336</u> |
| Financial assets available to meet general expenditures over the next twelve months | <u>\$ 746,680</u> | <u>\$ 422,837</u> |

As part of the Foundation's liquidity plan, the financial assets are structured to be available as general expenditures, liabilities and other obligations become due. Cash in excess of daily requirements is invested in a money market account. The receivables are subject to implied time restrictions but accounts are expected to be collected within one year.

11. SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 5, 2021, the date the financial statements were available to be issued.