

FRESH AIR, INC.

FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
DECEMBER 31, 2019**

FRESH AIR, INC.

FINANCIAL STATEMENTS

For the Year Ended December 31, 2019
(With Comparative Totals for 2018)

Table of Contents

	<u>Page</u>
Independent Auditor's Report	1
Financial Statements:	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to the Financial Statements	7



Mahoney Ulbrich Christiansen Russ P.A.

CERTIFIED PUBLIC ACCOUNTANTS

10 River Park Plaza, Suite 800 | Saint Paul, MN 55107

Phone: 651.227.6695 Fax: 651.227.9796 | www.mucr.com

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Fresh Air, Inc.
Minneapolis, Minnesota

We have audited the accompanying financial statements of Fresh Air, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2019, and the related statements of activities, functional expenses, and cash flows for the year 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 audit. We conducted our audit 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 Fresh Air, Inc. as of December 31, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Adoption of New Accounting Standards

As discussed in Note 2 to the financial statements, Fresh Air, Inc. has adopted Accounting Standards Updates (ASU) 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, ASU 2018-08, *Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, and ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Our opinion is not modified with respect to those matters.

Report on Summarized Comparative Information

We have previously audited Fresh Air, Inc.'s 2018 financial statements, and we expressed an unmodified audit opinion on those financial statements in our report dated June 18, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Mahoney Ulbrich
Christiansen Russ P.A.*

August 13, 2020

FRESH AIR, INC.

STATEMENT OF FINANCIAL POSITION

December 31, 2019
(With Comparative Totals for 2018)

	2019	2018
ASSETS		
Cash and cash equivalents	\$ 121,822	\$ 96,884
Accounts receivable, net of allowance for doubtful accounts of \$600 in 2019 and \$100 in 2018	2,022	19,377
Grants receivable	-	10,764
Prepaid expenses	20,627	18,326
Total current assets	144,471	145,351
Beneficial interest in assets held by The Minneapolis Foundation:		
Endowment funds	44,067	38,600
Property, equipment, and leasehold improvements, net	30,152	47,900
Lease security deposit	4,000	4,000
Total assets	\$ 222,690	\$ 235,851
LIABILITIES AND NET ASSETS		
Accounts payable	\$ 54,791	\$ 44,974
Accrued payroll and related	20,792	4,428
Refundable advances	62,218	60,154
Deferred lease incentive	5,867	-
Total current liabilities	143,668	109,556
Net assets without donor restrictions:		
Board designated endowment fund	44,067	38,600
Other net assets without donor restrictions	34,955	87,695
Total net assets without donor restrictions	79,022	126,295
Total liabilities and net assets	\$ 222,690	\$ 235,851

See accompanying notes to the financial statements.

FRESH AIR, INC.

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2019
(With Comparative Totals for 2018)

	Unrestricted	restricted	2019	2018
Support and revenue:				
Contributions				
Members	\$ 321,570	\$ -	\$ 321,570	\$ 333,883
Public	8,539	-	8,539	13,101
In-kind	20,958	-	20,958	23,578
Grants				
Foundations/corporations	15,025	-	15,025	5,603
State government	110,965	-	110,965	154,337
CPB/community service	85,935	-	85,935	90,270
Fundraising events	1,475	-	1,475	729
Underwriting	66,323	-	66,323	112,545
Investment income, net	5,467	-	5,467	468
Miscellaneous income	11,553	-	11,553	4,284
	<u>647,810</u>	<u>-</u>	<u>647,810</u>	<u>738,798</u>
 Expenses:				
Program services				
Programming/Production	210,958	-	210,958	243,585
Broadcast	226,151	-	226,151	264,679
Promotion	89,438	-	89,438	93,284
Total program services	<u>526,547</u>	<u>-</u>	<u>526,547</u>	<u>601,548</u>
Management and general	52,103	-	52,103	60,590
Fundraising	58,379	-	58,379	69,959
Membership development	58,054	-	58,054	68,013
Total supporting services	<u>168,536</u>	<u>-</u>	<u>168,536</u>	<u>198,562</u>
	<u>695,083</u>	<u>-</u>	<u>695,083</u>	<u>800,110</u>
 Change in net assets	<u>(47,273)</u>	<u>-</u>	<u>(47,273)</u>	<u>(61,312)</u>
 Net assets without donor restrictions - beginning of year	<u>126,295</u>	<u>-</u>	<u>126,295</u>	<u>187,607</u>
 Net assets without donor restrictions - end of year	<u><u>\$ 79,022</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 79,022</u></u>	<u><u>\$ 126,295</u></u>

See accompanying notes to the financial statements.

FRESH AIR, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2019
(With Comparative Totals for 2018)

	2019									2018
	Program Services			Total Program Services	Supporting Services			Total Supporting Services	Total Expenses	
	Programming/ Production	Broadcast	Promotion		Management and General	Fundraising	Membership Development			
Salaries	\$ 47,004	\$ 75,206	\$ 18,802	\$ 141,012	\$ 9,402	\$ 18,802	\$ 18,802	\$ 47,006	\$ 188,018	\$ 239,557
Fringe benefits	6,001	6,960	4,801	17,762	1,200	2,400	2,641	6,241	24,003	19,894
Payroll taxes	4,198	4,870	3,358	12,426	840	1,679	1,845	4,364	16,790	29,247
Total employee compensation	57,203	87,036	26,961	171,200	11,442	22,881	23,288	57,611	228,811	288,698
Contract services - other	24,465	39,144	9,786	73,395	4,893	9,786	9,784	24,463	97,858	117,768
Contract services - accounting	-	-	-	-	12,271	-	-	12,271	12,271	16,331
Contract services - engineering	21,553	-	-	21,553	-	-	-	-	21,553	24,452
Underwriting	-	-	26,448	26,448	-	-	-	-	26,448	20,850
Occupancy	21,245	33,992	8,498	63,735	4,249	8,498	8,497	21,244	84,979	91,832
Telephone	1,773	2,837	709	5,319	355	709	707	1,771	7,090	5,632
Office expense	11,701	18,722	4,681	35,104	2,340	4,681	4,680	11,701	46,805	35,225
Postage and bulk mailing	1,929	3,085	771	5,785	386	771	771	1,928	7,713	9,631
Affiliations and memberships	3,991	6,387	1,597	11,975	798	1,597	1,597	3,992	15,967	23,490
Insurance	4,289	6,862	1,716	12,867	858	1,716	1,714	4,288	17,155	13,841
Staff training	-	-	-	-	-	-	-	-	-	1,163
Books and periodicals	2,895	4,632	1,158	8,685	579	1,158	1,157	2,894	11,579	8,022
Maintenance and repair	2,259	3,615	904	6,778	452	904	903	2,259	9,037	9,589
Transmitter rental	26,685	-	-	26,685	-	-	-	-	26,685	29,563
Programming	2,543	4,069	1,017	7,629	509	1,017	1,015	2,541	10,170	13,109
Compact discs	18,570	-	-	18,570	-	-	-	-	18,570	20,769
Advertising and publicity	1,110	1,776	444	3,330	222	444	442	1,108	4,438	21,422
Sponsorship and trade expense	-	-	-	-	-	-	-	-	-	540
Copying and printing	2,879	4,606	1,151	8,636	576	1,151	1,151	2,878	11,514	12,904
Professional fees	941	1,505	376	2,822	11,188	376	377	11,941	14,763	10,678
Meeting expense	490	784	196	1,470	98	196	196	490	1,960	4,414
Special events	-	-	-	-	-	719	-	719	719	2,439
Bad debt expense	-	-	1,250	1,250	-	-	-	-	1,250	-
Depreciation	4,437	7,099	1,775	13,311	887	1,775	1,775	4,437	17,748	17,748
Total expenses	\$ 210,958	\$ 226,151	\$ 89,438	\$ 526,547	\$ 52,103	\$ 58,379	\$ 58,054	\$ 168,536	\$ 695,083	\$ 800,110

See accompanying notes to the financial statements.

FRESH AIR, INC.

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2019
(With Comparative Totals for 2018)

	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ (47,273)	\$ (61,312)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	17,748	17,748
Unrealized gains on investments, net	(5,467)	(468)
Changes in operating assets and liabilities:		
Accounts receivable	17,355	(9,041)
Grants receivable	10,764	(614)
Prepaid expenses	(2,301)	5,162
Accounts payable	9,817	8,945
Accrued payroll and related	16,364	(57)
Refundable advances	2,064	18,324
Deferred lease incentive	5,867	-
Net cash from operating activities	24,938	(21,313)
Cash flows from investing activities:		
Sale of investments	-	2,343
Net cash from investing activities	-	2,343
Net increase (decrease) in cash and cash equivalents	24,938	(18,970)
Cash and cash equivalents - beginning of year	96,884	115,854
Cash and cash equivalents - end of year	\$ 121,822	\$ 96,884

See accompanying notes to the financial statements.

FRESH AIR, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2019
(With Comparative Totals for 2018)

1. ORGANIZATION

Fresh Air, Inc. (KFAI) was founded in 1973 as a nonprofit organization to establish non-commercial community radio as an alternative to other Twin Cities stations; to fill the voids in music and news left by traditional broadcasters; to provide access to airwaves for the public at large; and to empower community members to use radio broadcasting. KFAI is volunteer-based and exists to broadcast information, arts and entertainment programming for an audience of diverse racial, social and economic backgrounds. By providing a voice for people ignored or misrepresented by mainstream media, KFAI increases understanding between peoples and communities, while fostering the values of democracy and social justice.

KFAI's activities are supported primarily by contributions, grants and underwriting.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 disclosure 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.

Concentrations of Credit Risk - KFAI places its cash with two financial institutions. At December 31, 2019 and 2018, these accounts did not exceed federally insured limits. KFAI has not experienced any losses from these deposits and management believes there is no significant credit risk.

Accounting Standards Adopted - In 2019, KFAI adopted Accounting Standards Update (ASU) 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* using the full retrospective approach. This ASU was issued to address diversity in reporting restricted cash on the statement of cash flows, largely due to the lack of guidance. After the adoption of ASU 2016-18, restricted cash and cash equivalents must be included with the beginning and ending cash and cash equivalents shown on the statement of cash flows. Before the change, restricted cash and cash equivalents were excluded. The adoption of this ASU had no effect on cash and cash equivalents.

(Continued)

FRESH AIR, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2019
(With Comparative Totals for 2018)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In 2019, KFAI adopted ASU 2018-08 *Not-for-Profit-Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958)* using the full retrospective approach. The ASU provides guidance on distinguishing between contributions and exchange transactions and clarifies whether contributions are conditional. The adoption of this ASU had no effect on the financial statements.

In 2019, KFAI adopted ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* using the full retrospective approach. The ASU clarifies the accounting for revenue arising from contracts with customers and specifies disclosures that an entity should include in the financial statements. The adoption of this ASU had no effect on the financial statements.

Financial Statement Presentation - These financial statements are presented on the accrual basis of accounting. For purposes of financial reporting, KFAI classifies resources into two net asset categories pursuant to any donor-imposed restrictions and applicable law. Accordingly, the net assets of KFAI are classified in the accompanying financial statements in the categories that follow:

- Net assets without donor restrictions are not restricted by donors or the donor-imposed restrictions have expired. Net assets without donor restrictions are available for programs and supporting services at the discretion of management and the board of directors.
- Net assets with donor restrictions are contributions restricted by donors for specific purposes or time periods. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is fulfilled, net assets with donor restrictions are reclassified to net assets without donor restrictions on the statement of activities. Contributions with donor-imposed restrictions that expire in the same fiscal year the contribution is recognized are reported as net assets without donor restrictions.

Cash Equivalents - For purposes of the statements of cash flows, KFAI considers investment instruments purchased with original maturities of three months or less to be cash equivalents.

(Continued)

FRESH AIR, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2019
(With Comparative Totals for 2018)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable and the Allowance for Doubtful Accounts - The carrying amount of accounts receivable is reduced by an allowance for doubtful accounts that reflects management's best estimate of the amounts that will not be collected. The allowance is an amount that management believes will be adequate to absorb possible losses on existing accounts receivable that may become uncollectible, based on evaluations of the collectability of individual accounts and prior loss experience. Receivables are written off as a charge to the allowance for doubtful accounts when, in management's estimation, it is probable that the receivable is worthless. Any subsequent collections on the written off accounts are recorded against bad debt expense in the year received. Interest is not assessed on past due accounts and receivables are considered delinquent based on stated invoice terms. Receivables are generally unsecured.

Beneficial Interest in Assets Held by The Minneapolis Foundation - Beneficial interests in assets held by The Minneapolis Foundation are recorded at fair value. Investment income or loss including gains and losses on investments, interest, and dividends, is included in the statement of activities as increases in net assets without donor restrictions unless specifically restricted by the donor or by law.

Losses on investments of the endowment created by the board designation of net assets without donor restrictions are classified as reductions in the amount designated.

Property, Equipment, and Leasehold Improvements - Property, equipment, and leasehold improvements are carried at cost, with the exception of donated items which are recorded at fair market value at the date of the gift. Additions with a cost of less than \$500 are expensed. Depreciation is computed using the straight-line method over the estimated useful lives of 3 to 10 years, or the term of the lease for leasehold improvements, whichever is shorter. Maintenance and repairs are expensed as incurred. Major renewals or betterments that extend the lives of property and equipment are capitalized. Management evaluates these assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Absent explicit donor restrictions regarding how long donated assets must be maintained, KFAI reports expiration of donor restrictions when the donated or acquired assets are placed in service.

Deferred Lease Incentive - Incentives received to enter into a lease are deferred and recognized on a straight-line basis over the term of the lease as a reduction of rent expense.

(Continued)

FRESH AIR, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2019
(With Comparative Totals for 2018)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions - Contributions are recorded when a donor makes an unconditional promise to give to KFAL. Donor-restricted contributions are reported as increases in net assets with donor restrictions depending on the nature of the restrictions. When a restriction expires or is fulfilled, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Refundable Advances and Government Grant Revenue - Government grants and contract funds are accounted for as contributions. Government grants and contracts are considered conditional based upon certain performance requirements and the incurrence of allowable qualifying expenses. Revenue is recognized when eligible expenditures, as defined in each grant or contract, are incurred. Funds received but not yet earned are recorded as refundable advances. For the years ended December 31, 2019, 13% and 13% of grant revenue was from two sources and in 2018, 12% and 12% were from two sources.

Underwriting - Underwriting transactions are considered to be exchange transactions and are recognized as revenue when credits are aired. Amounts received before credits are aired are reported as deferred revenue.

Contributed Materials - Contributed materials are recorded as contributions at their estimated fair value in the period received.

Contributed Services - Contributed services are recorded at their fair value when the service creates or enhances a nonfinancial asset or the service requires specialized skills that would need to be purchased if not provided by donation.

A substantial number of unpaid volunteers have made significant contributions of their time to KFAL's programs (on-air and off-air work). Approximately 24,000 (unaudited) of donated service hours were received in 2019 and 2018, but were not recognized in the financial statements because they did not meet the criteria to be recorded.

(Continued)

FRESH AIR, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2019
(With Comparative Totals for 2018)

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Functional Allocation of Expenses - Certain expenses are recorded in program service and supporting service categories based on specific identification. In the absence of specific identification, expenses are allocated based on staff time estimates made by management.

Advertising Expenses - Advertising costs are charged to expense during the period in which they are incurred.

Prior Year Summarized Information - The financial statements include certain prior-year summarized comparative information in total but not by net asset class or by functionalized expenses. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with KFAI's financial statements for the year ended December 31, 2018, from which the summarized information was derived.

Income Taxes - KFAI is exempt from income taxes under Internal Revenue Code Section 501(c)(3) and applicable Minnesota Statutes, except to the extent it has taxable income from activities that are not related to its exempt purpose. KFAI had no unrelated business income in 2019 or 2018. KFAI believes that it has appropriate support for any tax positions taken, and accordingly, does not have any uncertain tax positions that are material to the financial statements.

3. **LIQUIDITY AND AVAILABILITY OF RESOURCES**

KFAI's financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, are as follows:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 121,822	\$ 96,884
Accounts receivable, net	2,022	19,377
Grant receivable	-	10,764
	<u>\$ 123,844</u>	<u>\$ 127,025</u>

(Continued)

FRESH AIR, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2019
(With Comparative Totals for 2018)

3. LIQUIDITY AND AVAILABILITY OF RESOURCES (Continued)

As part of KFAI's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

KFAI adopts an annual budget and anticipates collecting sufficient revenue to fund general expenditures. Budget to actual results are monitored each month.

4. BENEFICIAL INTEREST

Beneficial interest in assets held by The Minneapolis Foundation are held in the Foundation's long-term growth strategy fund.

Investment income consists of the following:

	<u>2019</u>	<u>2018</u>
Unrealized gains	\$ 6,002	\$ 441
Interest income	-	205
Investment manager fees	<u>(535)</u>	<u>(178)</u>
Total investment income	<u>\$ 5,467</u>	<u>\$ 468</u>

Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC) 820, *Fair Value Measurements and Disclosures*, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that KFAI has the ability access.

(Continued)

FRESH AIR, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2019
(With Comparative Totals for 2018)

4. BENEFICIAL INTEREST (Continued)

- Level 2 Inputs to the valuation methodology include:
- Quoted prices for similar assets or liabilities in active markets;
 - Quoted prices for identical or similar assets or liabilities in inactive markets;
 - Inputs other than quoted prices that are observable for the asset or liability;
 - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Following is a description of the valuation methodology used for investments measured at fair value. Valuation techniques used to determine fair value have been consistently applied.

Beneficial interest in funds held by others: (Level 2 or 3) Valued at KFAI's percentage ownership interest in the multi-asset endowment portfolio's fair value, as represented by the portfolio's management.

The preceding method described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although KFAI believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value could result in a different fair value measurement at the reporting date.

Fair values of assets and liabilities measured on a recurring basis at December 31, 2019, are as follows:

Fair value	Fair Value Measurement Using:		
	Quotes prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Beneficial interest in funds held by others	\$ 44,067	\$ -	\$ 44,067
	\$ 44,067	\$ -	\$ 44,067

(Continued)

FRESH AIR, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2019
(With Comparative Totals for 2018)

4. BENEFICIAL INTEREST (Continued)

Fair values of assets and liabilities measured on a recurring basis at December 31, 2018, are as follows:

	Fair value	Fair Value Measurement Using:		
		Quotes prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Beneficial interest in funds held by others	\$ 38,600	\$ -	\$ -	\$ 38,600

Activity is summarized below:

	2019	2018
Balance, beginning of year	\$ 38,600	\$ 38,159
Investment gain, net	6,002	689
Investment expenses	(535)	(168)
Balance, end of year	\$ 44,067	\$ 38,600

KFAI's governing board has designated, from net assets without donor restrictions, an amount held by The Minneapolis Foundation as an endowment fund of \$44,067 and \$38,600 at December 31, 2019 and 2018.

5. PROPERTY, EQUIPMENT, AND LEASEHOLD IMPROVEMENTS

Property, equipment and leasehold improvements consisted of the following:

	2019	2018
Equipment	\$ 76,160	\$ 76,160
Transmitter	41,607	41,607
Leasehold improvements	5,889	5,889
	125,675	123,656
Less: accumulated depreciation	(93,504)	(75,756)
	\$ 30,152	\$ 47,900

(Continued)

FRESH AIR, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2019
(With Comparative Totals for 2018)

6. OPERATING LEASES

KFAI leases office space under a non-cancelable, long-term lease expiring December 31, 2020. The monthly lease expense includes base rent plus a proportionate share of real estate taxes and operating costs incurred by the lessor. During 2019 and 2018, office lease expense was \$78,111 and \$83,180. Future minimum lease payments are \$81,159 in 2020.

KFAI also leases transmitter towers under short-term leases. Transmitter rental expense was \$26,685 and \$29,563 in 2019 and 2018.

KFAI leases a copier under an operating lease expiring in August 2023. Net rent expense was \$11,514 in 2019 and \$12,904 in 2018.

Minimum future lease payments under the copier operating lease are as follows:

2020	\$ 3,396
2021	3,396
2022	3,396
2023	<u>2,264</u>
	<u>\$ 12,452</u>

Prior to this lease, KFAI leased a copier under another operating lease. KFAI terminated that lease and returned the copier in August 2018. The new lessor paid KFAI \$8,000 to pay off the remaining balance of the copier lease. This amount has been recorded as a deferred lease incentive and is being amortized using the straight-line method over the 60-month term of the new lease which will end in August 2023. Amortization during 2019 of \$800 has been netted against the copier lease expense.

7. MUSIC LIBRARY

KFAI maintains a music library on-site. This resource includes a variety of compact discs and albums totaling approximately 58,000 (unaudited) and 57,000 (unaudited) at December 31, 2019 and 2018. The fair value of donated compact discs and albums is recorded as in-kind contributions and program expense in the year these items are acquired. KFAI received in-kind contributions of compact discs of \$18,570 in 2019 and \$20,769 in 2018.

(Continued)

FRESH AIR, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2019
(With Comparative Totals for 2018)

8. CONTINGENCIES

Amounts received from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed grant costs may constitute a liability. The amount, if any, of costs which may be disallowed by the grantor agencies will be recognized in the year determined.

9. SUBSEQUENT EVENTS

A nationwide public health emergency has developed in 2020. The state of Minnesota has enacted measures to combat the global pandemic resulting from a novel strain of coronavirus known as COVID-19. Measures have included regulatory restrictions on citizen and business activities as well as recommendations for further voluntary curtailment of activities. There has been no immediate impact on the KFAI's operations. The future potential impact of these issues is uncertain, however possible effects may include, but are not limited to, a decline in the market value of assets held by KFAI including property and equipment and endowment investments, and a decline in underwriting and contributions.

In May 2020, KFAI applied for and received \$42,300 in a Paycheck Protection Program loan from a program developed by the Federal government in response to COVID-19. The loan has a term of two years and interest at 1%. The loan may be forgiven if certain conditions are met including that 60% of the loan be used for payroll within 24 weeks of disbursement. Any portion of the loan not forgiven will be amortized and paid monthly over the remaining term of the loan.

KFAI had a purchase agreement from a radio station in the amount of \$260,000 to sell a 106.7 FM translator. The sale of the transmitter closed in July 2020.

Management has evaluated subsequent events through August 13, 2020, the date on which the financial statements were available for issue, and identified no further significant events or transactions to disclose.