CAPITAL OF TEXAS PUBLIC TELECOMMUNICATIONS COUNCIL

Consolidated Financial Statements as of and for the Years Ended September 30, 2018 and 2017 and Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Capital of Texas Public Telecommunications Council:

We have audited the accompanying consolidated financial statements of Capital of Texas Public Telecommunications Council (a nonprofit organization) and its subsidiary, KLRU New Ventures, Inc., (a Texas corporation) (collectively, the "Organization"), which comprise the consolidated statements of financial position as of September 30, 2018 and 2017, and the related consolidated statements of activities and functional expenses for the year ended September 30, 2018, the consolidated statements of cash flows for the years ended September 30, 2018 and 2017, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements were free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of September 30, 2018 and 2017, the changes in its net assets for the year ended September 30, 2018, and the changes in its cash flows for the years ended September 30, 2018 and 2017 in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Organization's 2017 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 14, 2017. In our opinion, the summarized comparative information presented herein for the year ended September 30, 2017, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Maxwell Locke & Ritter LLP

Austin, Texas
January 28, 2019

CAPITAL OF TEXAS PUBLIC TELECOMMUNICATIONS COUNCIL

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2018 AND 2017

	2018	2017
ASSETS		
Cash and cash equivalents	$ 1,502,724	$ 2,616,734
Investments	5,804,160	3,724,798
Accounts receivable	869,481	659,698
Prepaid expenses	2,238,437	2,220,999
Program rights	2,573,799	2,424,668
Property and equipment, net	2,825,594	3,656,106
TOTAL ASSETS	$ 15,814,195	$ 15,303,003
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable	$ 2,506,941	$ 2,312,982
Accrued liabilities	23,459	20,639
Deferred revenue	1,732,270	1,719,347
Total liabilities	4,262,670	4,052,968
NET ASSETS:		
Unrestricted - management-designated reserve	281,954	279,026
Unrestricted - management-designated endowment reserve	1,568,628	1,271,623
Unrestricted - undesignated	7,079,630	7,246,211
Total unrestricted	8,930,212	8,796,860
Temporarily restricted	1,669,499	1,504,861
Permanently restricted	951,814	948,314
Total net assets	11,551,525	11,250,035
TOTAL LIABILITIES AND NET ASSETS	$ 15,814,195	$ 15,303,003

See notes to consolidated financial statements.

CAPITAL OF TEXAS PUBLIC TELECOMMUNICATIONS COUNCIL

CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2018
(with summarized comparative totals for the year ended September 30, 2017)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2018 Total	2017 Total
REVENUES:					
Membership	$ 8,187,108	-	-	8,187,108	7,118,432
In-kind support and contributed services	2,083,346	-	-	2,083,346	1,843,729
Production underwriting	1,967,775	-	-	1,967,775	1,373,561
Community service grant	1,863,461	-	-	1,863,461	1,699,020
License fees, royalties, and other	1,608,059	-	-	1,608,059	2,037,616
Special events	815,610	-	-	815,610	864,509
Program underwriting	634,241	-	-	634,241	610,098
Investment return	157,144	270,651	-	427,795	463,001
Educational services	263,215	-	-	263,215	256,528
Endowment contributions	-	-	3,500	3,500	-
Capital contribution	-	-	-	-	523,972
Net assets released from restrictions	106,013	(106,013)	-	-	-
Total revenues	17,685,972	164,638	3,500	17,854,110	16,790,466
EXPENSES:					
Program services:					
Production	5,630,828	-	-	5,630,828	5,546,816
Programming	2,936,082	-	-	2,936,082	2,769,890
Broadcasting	2,648,425	-	-	2,648,425	2,407,635
New Ventures	1,181,920	-	-	1,181,920	817,726
Marketing and communications	711,766	-	-	711,766	642,256
Total program services	13,109,021	-	-	13,109,021	12,184,323
Support services:					
Membership and development	2,872,827	-	-	2,872,827	2,562,340
Management and general	1,570,772	-	-	1,570,772	1,663,835
Total support services	4,443,599	-	-	4,443,599	4,226,175
Total expenses	17,552,620	-	-	17,552,620	16,410,498
CHANGE IN NET ASSETS	133,352	164,638	3,500	301,490	379,968
NET ASSETS, beginning of year	8,796,860	1,504,861	948,314	11,250,035	10,870,067
NET ASSETS, end of year	$ 8,930,212	1,669,499	951,814	11,551,525	11,250,035

See notes to consolidated financial statements.

CAPITAL OF TEXAS PUBLIC TELECOMMUNICATIONS COUNCIL

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED SEPTEMBER 30, 2018
(with summarized comparative totals for the year ended September 30, 2017)

	Program Services						Support Services				
	Production	Programming	Broadcasting	New Ventures	Marketing and Communications	Total Program Services	Membership and Development	Management and General	Total Support Services	2018 Total	2017 Total
Salaries	$ 979,812	552,266	985,031	174,650	399,591	3,091,350	898,159	630,291	1,528,450	4,619,800	4,324,933
Production costs	2,309,884	-	-	570,847	-	2,880,731	-	-	-	2,880,731	2,311,713
Dues and subscriptions	1,667	2,038,610	872	-	543	2,041,692	17,181	40,138	57,319	2,099,011	1,942,594
Benefits	218,617	118,552	226,238	24,925	73,701	662,033	179,906	154,859	334,765	996,798	958,260
Professional services	35,227	800	225,836	98,017	-	359,880	132,027	81,839	213,866	573,746	503,409
Other	13,983	1,014	6,260	211,523	1,833	234,613	251,208	49,284	300,492	535,105	806,206
Occupancy	-	7	205,512	36,780	-	242,299	-	223,688	223,688	465,987	465,485
Direct mail and digital	-	-	-	-	-	-	349,384	-	349,384	349,384	348,440
Maintenance and support	-	12,059	169,292	-	-	181,351	132,535	13,218	145,753	327,104	408,471
Events	17,933	3,322	-	-	14,315	35,570	223,496	-	223,496	259,066	277,170
Meetings and travel	19,999	20,036	17,945	23,155	5,277	86,412	104,141	47,357	151,498	237,910	213,774
Supplies	13,174	20,242	105,737	1,257	137	140,547	31,154	4,469	35,623	176,170	180,077
Contract services	37,475	300	10,894	5,296	2,000	55,965	61,545	30,262	91,807	147,772	63,756
Postage and shipping	960	2,228	17,988	7,838	916	29,930	101,428	2,474	103,902	133,832	108,019
Advertising and promotions	276	4,910	-	2,981	83,694	91,861	4,635	800	5,435	97,296	50,172
Printing, graphics, and photography	3,909	-	-	-	26,487	30,396	49,101	-	49,101	79,497	51,184
Insurance	-	-	-	18,131	-	18,131	-	60,682	60,682	78,813	86,155
Internet and telephone	3,456	1,971	23,377	96	592	29,492	1,389	5,642	7,031	36,523	53,877
Web expense	-	-	-	6,424	20,559	26,983	-	-	-	26,983	27,919
Equipment rental	-	-	-	-	-	-	4,347	22,105	26,452	26,452	21,202
Training	3,119	-	2,251	-	-	5,370	997	12,751	13,748	19,118	478
Indirect costs	-	(3,074)	-	-	-	(3,074)	-	-	-	(3,074)	(1,598)
Subtotal	3,659,491	2,773,243	1,997,233	1,181,920	629,645	10,241,532	2,542,633	1,379,859	3,922,492	14,164,024	13,201,696
Depreciation and amortization of property and equipment	521,107	130,278	521,107	-	-	1,172,492	65,138	65,138	130,276	1,302,768	1,325,563
Loss on disposition of property and equipment	-	-	-	-	-	-	-	2,482	2,482	2,482	48,510
Subtotal	521,107	130,278	521,107	-	-	1,172,492	65,138	67,620	132,758	1,305,250	1,374,073
In-kind support and contributed services	1,450,230	32,561	130,085	-	82,121	1,694,997	265,056	123,293	388,349	2,083,346	1,834,729
Total expenses	$ 5,630,828	2,936,082	2,648,425	1,181,920	711,766	13,109,021	2,872,827	1,570,772	4,443,599	17,552,620	16,410,498

See notes to consolidated financial statements.

CAPITAL OF TEXAS PUBLIC TELECOMMUNICATIONS COUNCIL

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 301,490	$ 379,968
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	1,302,768	1,325,563
Amortization of program rights	1,410,830	1,295,141
Loss on disposition of property and equipment	2,482	48,510
Net realized and unrealized gains on investments	(343,112)	(397,984)
Contributions restricted for endowment funds	(3,500)	-
Changes in operating assets and liabilities:		
Accounts receivable	(209,783)	(197,745)
Pledges receivable	-	136,000
Prepaid expenses	(17,438)	(99,275)
Accounts payable	119,399	252,385
Accrued liabilities	2,820	(401)
Deferred revenue	12,923	(986,364)
Net cash provided by operating activities	2,578,879	1,755,798
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(2,540,862)	(1,814,990)
Proceeds from sales and maturities of investments	804,612	1,846,603
Purchases of program rights	(1,559,961)	(1,521,402)
Purchases of property and equipment	(400,178)	(911,030)
Net cash used in investing activities	(3,696,389)	(2,400,819)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions restricted for endowment funds	3,500	-
Borrowings on line of credit	-	35,147
Payments on line of credit	-	(35,147)
Net cash provided by financing activities	3,500	-
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,114,010)	(645,021)
CASH AND CASH EQUIVALENTS, beginning of year	2,616,734	3,261,755
CASH AND CASH EQUIVALENTS, end of year	$ 1,502,724	$ 2,616,734
SUPPLEMENTAL DISCLOSURE-		
Purchases of property and equipment recorded in accounts payable	$ 74,560	$ -

See notes to consolidated financial statements.

1. NATURE OF OPERATIONS

Capital of Texas Public Telecommunications Council ("KLRU") is a nonprofit corporation providing public and educational broadcast services through its licensed station, KLRU (Channel 18) as well as other digital and cable broadcast channels, online video content, and direct community services. This station is the public television station which broadcasts high-quality programs to viewers in Austin, Texas and other surrounding areas of Central Texas. KLRU is a member of the Public Broadcasting Service.

During fiscal year 2013, KLRU formed a for-profit corporate subsidiary, KLRU New Ventures ("KNV"), who is the sole member of a limited liability company, ACL Enterprises ("ACLE"), for the purpose of pursuing commercial business opportunities, in particular those associated with the Austin City Limits ("ACL") Brand. Formation of a separate entity protects KLRU from liabilities associated with ACL branding and assures that KLRU's tax-exempt status will not be jeopardized by significant non-exempt purpose activities. KNV is wholly owned by KLRU, with a separate board of directors appointed by the KLRU Board of Directors (the "Board"). KLRU and KNV have agreements in place governing the licensing of KLRU intellectual property to KNV and the management of shared services between the two.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Consolidation - The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") as defined by the Financial Accounting Standards Board Accounting Standards Codification ("ASC"). The consolidated financial statements include the accounts of KLRU, KNV, and ACLE (collectively, the "Organization"). All significant intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates - The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Summarized Comparative Totals - The accompanying consolidated statement of activities includes certain prior year summarized comparative information in total, but not by net asset class. In addition, the accompanying consolidated statement of functional expenses includes certain prior year summarized comparative information in total, but not by function. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements for the year ended September 30, 2017, from which the summarized information was derived.

Net Asset Classification - Net assets, revenues, and expenses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

<u>Unrestricted</u> **-** Net assets that are not restricted by donor-imposed stipulations. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Management has designated portions of unrestricted net assets, reserved for future operations and the endowment fund (Note 7).

<u>Temporarily Restricted</u> **-** Net assets subject to donor-imposed stipulations that are met either by actions of the Organization and/or the passage of time. When donor restrictions expire, that is, when a stipulated time restriction ends or restricted purpose is accomplished, the related temporarily restricted net assets are reclassified to unrestricted net assets. This is reported in the consolidated statement of activities as net assets released from restrictions. As of both September 30, 2018 and 2017, all temporarily restricted net assets were comprised of unappropriated earnings from permanently restricted donor endowments.

<u>Permanently Restricted</u> **-** Net assets subject to donor-imposed stipulation that they be maintained permanently by the Organization.

Fair Value Measurements - Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value accounting requires characterization of the inputs used to measure fair value into a three-level fair value hierarchy as follows:

Level 1 **-** Inputs based on quoted market prices in active markets for identical assets or liabilities. An active market is a market in which transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 **-** Observable inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent from the entity.

Level 3 **-** Unobservable inputs that reflect the entity’s own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available.

There are three general valuation techniques that may be used to measure fair value: 1) market approach - uses prices generated by market transactions involving identical or comparable assets or liabilities, 2) cost approach - uses the amount that currently would be required to replace the service capacity of an asset (replacement cost), and 3) income approach - uses valuation techniques to convert future amounts to present amounts based on current market expectations.

Cash Equivalents - The Organization considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

Investments - Investments are reported at their fair values in the consolidated statements of financial position. Investment transactions are recorded on the trade date and investment income is recorded in the consolidated statement of activities when earned. Realized gains and losses are recorded as the difference between historical cost and the proceeds earned from the sale of an investment. Unrealized gains and losses are recorded for the change in fair value of investments between reporting periods. Investment return in the consolidated statement of activities also includes dividend and interest income.

Accounts Receivable - Accounts receivable are recorded at the value of the revenue earned, and are considered past due based on how recently payments have been received. Delinquent invoices do not accrue interest. The Organization continually monitors sponsors' credit worthiness individually, and recognizes allowances for estimated bad debts on receivables that are no longer estimated to be collectible. The Organization adjusts any allowance for subsequent collections or upon final determination that an account is no longer collectible. As of both September 30, 2018 and 2017, the Organization did not record an allowance for uncollectible accounts receivables as management deemed all balances to be collectible.

Pledges Receivable - Unconditional contributions receivable are recorded at the amount KLRU expects to receive from grantors and donors. Promises to give are recorded at fair value if expected to be collected in one year and at net present value if expected to be collected in more than one year.

Program Rights - Program rights are recorded at cost and amortized on a straight-line basis over the period of the license agreements, ranging from 1 to 3 years. Amortization, included with dues and subscriptions programming expense in the consolidated statement of activities, is expected to be $1,342,885, $862,374, and $368,540 during the years ending September 30, 2019, 2020, and 2021, respectively.

Property and Equipment - Acquisitions of property and equipment are capitalized at cost if purchased and at fair value on the date of receipt if donated. The Organization capitalizes all acquisitions over $5,000 and expenses maintenance and repairs that do not improve or extend the useful lives of the assets. Property and equipment are depreciated using the straight-line method over periods of 3 to 10 years. Amortization of leasehold improvements is calculated on a straight-line basis at the lesser of the estimated useful life or remaining life of the lease (5 to 10 years).

Impairment of Long-Lived Assets - Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate the amount recorded may not be recoverable. An impairment loss is recognized by the amount in which the carrying amount of the asset exceeds fair value, if the carrying amount of the asset is not recoverable.

Contributions - All contributions are recorded at their fair value and are considered to be available for operations of the Organization unless specifically restricted by the donor. KLRU records membership revenue as contributions. Unconditional promises to give cash and other assets are reported as temporarily restricted net assets, if they are received with donor stipulations that limit the use of donated assets. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire within the same fiscal year in which the contributions are received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

In-kind Support and Contributed Services - Donated goods are recorded at their estimated fair value when received. Contributions of services are recognized if the services received (a) create or enhance nonfinancial assets and (b) require specialized skills, are provided by individuals possessing these skills and would typically need to be purchased if not provided by donation. KLRU receives unconditional contributions of the use of facilities, in which the donor retains legal title to the asset. These contributions are recorded at fair value and recognized as contribution revenue in the period received and expense in the same period the facilities are used.

Production Underwriting Revenue and Related Costs - Production costs incurred in connection with the ACL television series are recorded as prepaid expenses until the productions are broadcasted, at which time they are expensed. Related production underwriting revenue is also recognized when the broadcast occurs. Deferred revenue includes amounts received from ACL underwriters in excess of revenue recognized and amounts billed to ACL underwriters under the provisions of their contracts, for which balances may still be outstanding in accounts receivable. All other production costs and related production underwriting revenue is recognized as expenses are incurred.

Community Service Grant - The Corporation for Public Broadcasting ("CPB") is a private, nonprofit grant-making organization responsible for funding more than 1,000 television and radio stations. KLRU records the revenue from these grants as funds are received in accordance with the applicable grant award.

License Fees and Royalties - License fees are recognized based on contract terms with licensees, typically upon delivery of content. Royalty revenue is recorded in the period in which it is earned, except when the amount of revenue cannot be reasonably determined before it is received, in which case revenue is recognized when funds are received.

Special Events - Special events revenues are recognized in the period the events occur. A portion of deferred revenue is comprised of amounts collected in advance for special events for which the event takes place in the following fiscal year and will be recorded to revenue at the time of the event.

Program Underwriting - Revenue from program underwriting agreements is recognized as the underwriting spots are aired.

Advertising Costs - The Organization expenses advertising costs as incurred.

Functional Allocation of Expenses - The accompanying financial consolidated statements present expenses by functional and natural classification. Expenses directly attributable to a specific functional area are reported as expenses of those functional areas. Certain costs have been allocated among the program and supporting services using a variety of cost allocation techniques, such as time and effort.

Federal Income Taxes - KLRU is a nonprofit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code ("IRC"), except with respect to any unrelated business income. KLRU did not incur any significant tax liabilities due to unrelated business income during the years ended September 30, 2018 and 2017. KLRU files form 990 tax returns in the U.S. federal jurisdiction and is subject to routine examinations of its returns; however, there are no examinations currently in progress. The Internal Revenue Service has also recognized KLRU as a public charity under Section 509(a)(l) of the IRC.

KNV files income tax returns in the U.S. federal jurisdiction and the state of Texas. ACLE is a disregarded entity for income tax purposes. Income taxes are accounted for under the liability method whereby deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. Valuation allowances are established when considered necessary to reduce the net deferred tax assets to amounts which are more likely than not to be realized.

KNV may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained upon examination by the relevant taxing authority based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. Management evaluated KNV's tax positions for all open tax years and believes KNV had no material uncertain tax positions and has recorded no related interest or penalties for the years ended September 30, 2018 and 2017.

Recently Issued Accounting Pronouncements - In May 2014 and August 2015, the FASB issued Accounting Standards Updates ("ASU") No. 2014-09 and No. 2015-14, *Revenue from Contracts with Customers*, which supersede the revenue recognition requirements in ASC 605, *Revenue Recognition*, and most industry-specific guidance included in the ASC. The standard requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. The standard is effective retrospectively for fiscal years beginning after December 15, 2018 and early adoption is permitted. The Organization is currently evaluating the impact the standard will have on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires the recognition of lease assets and lease liabilities by lessees for all leases, including leases previously classified as operating leases, and modifies the classification criteria and accounting for sales-type and direct financing leases by lessors. Leases continue to be classified as finance or operating leases by lessees and both classifications require the recognition of a right-of-use asset and a lease liability, initially measured at the present value of the lease payments in the statement of financial position. Interest on the lease liability and amortization of the right-of-use asset are recognized separately in the statement of activities for finance leases and as a single lease cost recognized on the straight-line basis over the lease term for operating leases. The standard is effective using a modified retrospective approach for fiscal years beginning after December 15, 2019 and early adoption is permitted. The Organization is currently evaluating the impact the standard will have on its consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which requires presentation on the face of the statement of financial position amounts for two classes of net assets at the end of the period, net assets with donor restrictions and net assets without donor restrictions, rather than the currently required three classes. The standard also requires the presentation on the face of the statement of activities the amount of the change in each of these two classes of net assets.
The standard will no longer require the presentation or disclosure of the indirect method of reporting cash flows if an entity elects to use the direct method. An entity will be required to provide enhanced disclosures about liquidity in the footnotes to the financial statements.
The standard is effective for fiscal years beginning after December 15, 2017 and early adoption is permitted. The Organization is currently evaluating the impact the standard will have on its consolidated financial statements.

3. CONCENTRATION OF CREDIT RISK

Financial instruments which potentially subject the Organization to credit risk consist of cash and cash equivalents, investments, and accounts receivable. The Organization places its cash and cash equivalents with a limited number of high quality financial institutions and may exceed the amount of insurance provided on such deposits. Investments are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the near-term could materially affect the amounts reported in the consolidated statements of financial position. The Organization does not maintain collateral for its receivables. As of September 30, 2018, two sponsors comprised 68% of accounts receivable.

4. INVESTMENTS

Investments reported at fair value as of September 30, 2018 were as follows:

		Fair Value Measurements Using:		
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Corporate equities	$ 2,606,187	$ 2,606,187	$ -	$ -
Certificates of deposit	1,614,219	1,614,219	-	-
Corporate bonds	786,918	-	786,918	
Exchange traded funds	505,419	-	505,419	-
Money market funds	138,159	138,159	-	-
Cash equivalents	101,188	101,188	-	-
Municipal bonds	51,103	-	51,103	-
Mortgage pools - FHLMC	967	-	967	-
Total investments	$ 5,804,160	$ 4,459,753	$ 1,344,407	$ -

Investments reported at fair value as of September 30, 2017 were as follows:

		Fair Value Measurements Using:		
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Corporate equities	$ 2,280,940	$ 2,280,940	$ -	$ -
Corporate bonds	754,518	-	754,518	-
Exchange traded funds	486,498	-	486,498	
Money market funds	148,439	148,439	-	-
Municipal bonds	53,008	-	53,008	-
Mortgage pools - FHLMC	1,395	-	1,395	-
Total investments	$ 3,724,798	$ 2,429,379	$ 1,295,419	$ -

Corporate equities, certificates of deposit, money market funds and cash equivalents are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices, broker dealer quotations or other alternative pricing sources with reasonable levels of price transparency. Corporate and municipal bonds, exchange traded funds, and mortgage pools are classified within Level 2 of the fair value hierarchy since valuations are obtained from readily-available pricing sources for comparable instruments.

Investment return consisted of the following during the years ended September 30:

	2018	2017
Realized gains on investments	$ 1,187,418	$ 926,074
Unrealized losses on investments	(844,306)	(528,090)
Dividend and interest income	84,683	65,017
	$ 427,795	$ 463,001

5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of September 30:

	2018	2017
Studio broadcast equipment	$ 9,927,884	$ 10,012,491
Transmitter / antenna	1,884,199	1,884,199
Office and transportation equipment	1,085,818	1,173,615
Leasehold improvements	1,085,543	1,085,543
	13,983,444	14,155,848
Less accumulated depreciation and amortization	(11,564,901)	(10,499,742)
Construction in process	407,051	-
Total	$ 2,825,594	$ 3,656,106

Equipment purchased with Public Telecommunications Facilities Program grants, administered by the National Telecommunications and Information Administration (“NTIA”), has recorded liens identifying the Federal Government (Department of Commerce) as the priority secured creditor. Equipment subject to the NTIA liens amounted to $1,342,617 as of September 30, 2018 and 2017. Of the equipment subject to the NTIA liens, $331,193 and $325,381 will expire in September 2019 and September 2020, respectively.

6. LINE OF CREDIT

KLRU has available a $750,000 revolving line of credit with a financial institution which expires on March 31, 2019. This line bears interest at the bank’s prime rate (5.25% and 4% at September 30, 2018 and 2017, respectively) and is collateralized by equipment. No balance was outstanding as of September 30, 2018 and 2017. The line of credit agreement contains a financial covenant that requires the loans to be used for working capital.

7. ENDOWMENT FUND

The Texas Uniform Prudent Management of Institutional Funds Act ("TUPMIFA") requires and the Board has adopted an endowment policy which requires the preservation of the fair value of the original gift as of the gift date of the perpetual donor-restricted endowment funds absent explicit donor stipulations to the contrary. Permanently restricted net assets are classified at the original value of gifts donated to the permanent endowment, which is named KLRU General Endowment Fund (the "Endowment Fund"), plus the original value of subsequent gifts to the Endowment Fund. The remaining portion of the donor-restricted Endowment Fund is classified as temporarily restricted net assets until those funds are appropriated for expenditure by KLRU in a manner consistent with the standard of prudence prescribed by TUPMIFA and the Board's spending policy.

In accordance with TUPMIFA, KLRU considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of KLRU, and (7) KLRU's investment policies.

KLRU received an unrestricted estate gift during the year ended September 30, 2016 and management decided to transfer $1,000,000 of the gift into the Endowment Fund. The Board confirmed management's decision and authorized management to manage the funds in a prudent manner. As there were no donor imposed restrictions, the transfer is included in unrestricted net assets. Management intends to use the funds in a manner consistent with the Board's Endowment Investment and Distribution policy.

The spending policy adopted by the Board is summarized as follows: after the Endowment Fund reaches $2,000,000, an annual distribution, not to exceed 5% of the rolling average value of the Fund over the preceding five years. The permanently restricted corpus of the Endowment Fund shall not be expended or distributed for any reason.

The Endowment Investment and Distribution policy details the objectives, asset mix, investment restrictions, external fund management and Board monitoring procedures. The primary objective is to provide a continuing and dependable cash payout, stable and preferably growing in real terms, after giving effect to inflation. The secondary objective is to appreciate the total value of the Endowment Fund over time, exclusive of growth derived from donations. To meet these objectives, the Board organizes and maintains an investment program for the Endowment Fund that attempts to maximize the return on the Endowment's investments, consistent with an appropriate level of risk and subject to generation of adequate current income. Additionally, the Endowment Fund is diversified at all times to provide reasonable assurance that investment in a single security, a class of securities, or industry will not have an excessive impact on the Endowment Fund.

Changes in Endowment Fund net assets were as follows for the year ended September 30, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 1,271,623	$ 1,504,861	$ 948,314	$ 3,724,798
Contributions	-	-	3,500	3,500
Board-designation	75,000	-	-	75,000
Investment income	23,157	44,675	-	67,832
Management fees	(8,288)	(16,013)	-	(24,301)
Net realized and unrealized gains	117,136	225,976	-	343,112
Appropriations for expenditure	90,000	(90,000)	-	-
Endowment net assets, end of year	$ 1,568,628	$ 1,669,499	$ 951,814	$ 4,189,941

Changes in Endowment Fund net assets were as follows for the year ended September 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 1,135,060	$ 1,275,054	$ 948,314	$ 3,358,428
Investment income	17,951	42,281	-	60,232
Management fees	-	(21,846)	-	(21,846)
Net realized and unrealized gains	118,612	279,372	-	397,984
Appropriations for expenditure	-	(70,000)	-	(70,000)
Endowment net assets, end of year	$ 1,271,623	$ 1,504,861	$ 948,314	$ 3,724,798

Endowment Fund net asset composition by type of fund as of September 30, 2018 consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 1,669,499	$ 951,814	$ 2,621,313
Management reserve investment	1,568,628	-	-	1,568,628
Total funds	$ 1,568,628	$ 1,669,499	$ 951,814	$ 4,189,941

Endowment Fund net asset composition by type of fund as of September 30, 2017 consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 1,504,861	$ 948,314	$ 2,453,175
Management reserve investment	1,271,623	-	-	1,271,623
Total funds	$ 1,271,623	$ 1,504,861	$ 948,314	$ 3,724,798

A description of amounts classified as permanently restricted net assets and temporarily restricted net assets is as follows as of September 30:

	2018	2017
Permanently Restricted Net Assets- The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by TUPMIFA	$ 951,814	$ 948,314
Temporarily Restricted Net Assets- The portion of perpetual endowment funds subject to a restriction under TUPMIFA- Without purpose restrictions	$ 1,699,499	$ 1,504,861

8. COMMUNITY SERVICE GRANTS AND CONTINGENCIES

CPB distributes annual Community Service Grants ("CSG") to qualifying public telecommunications entities. The grants are approved by the U.S. Congress each year and could be reduced in the future. KLRU's CSG is reported in the accompanying consolidated financial statements in unrestricted net assets; however, certain guidelines must be satisfied in connection with application for and use of the funds to maintain eligibility and compliance requirements. These guidelines pertain to the use of funds, recordkeeping, audits, financial reporting, and licensee status with the Federal Communications Commission (the "FCC"). KLRU recognized revenue of $1,863,461 and $1,699,020 for the CSG awarded during the years ended September 30, 2018 and 2017, respectively. Such grants were received for specific purposes that are subject to review and audit by government agencies. Such audits could result in a request for reimbursement for expenditures disallowed under terms and conditions of the appropriate agency. In the opinion of KLRU's management, such disallowances, if any, would not be significant.

9. IN-KIND SUPPORT AND CONTRIBUTED SERVICES

The Organization received in-kind support and contributed services as follows during the years ended September 30:

	2018	2017
Venue and parking	$ 818,400	$ 803,400
Office space	722,692	714,358
Production and programming services and use of technical equipment	381,317	309,404
Advertising and marketing services	150,000	-
Legal services	7,937	16,567
Architect services	3,000	-
	$ 2,083,346	$ 1,843,729

10. LEASE COMMITMENTS

The Organization leases its studio and office space on a renewable, month-to-month basis and leases equipment consisting of a broadcasting tower, transmitter space, and other office equipment under non-cancelable long-term operating lease agreements expiring on various dates through fiscal year 2023. Future minimum operating lease payments were as follows as of September 30, 2018:

2019	$ 343,741
2020	298,366
2021	159,232
2022	140,065
2023	111,155
Total minimum lease payments	$ 1,052,559

Rent expense on all operating leases totaled $373,762 and $374,745 during the years ended September 30, 2018 and 2017, respectively.

11. RETIREMENT PLAN

The Organization provides a 403(b) retirement plan, available to all employees with over one year of service. Employees can elect to make additional contributions to the plan through a deduction from their salary on a tax-deferred basis. The Organization contributes 4% of compensation to eligible employees. The Organization matches up to 3% of the additional tax-deferred contributions made by employees. The Organization's contributions to the retirement plan totaled $262,397 and $228,675 during the years ended September 30, 2018 and 2017, respectively.

12. RELATED PARTY TRANSACTIONS

Contributions from board members totaled $288,638 and $251,292 during the years ended September 30, 2018 and 2017, respectively.

13. SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through January 28, 2019 (the date the consolidated financial statements were available to be issued), and no events have occurred from the consolidated statement of financial position date through that date that would impact the consolidated financial statements.