CAPITAL OF TEXAS PUBLIC TELECOMMUNICATIONS COUNCIL (DBA AUSTIN PBS AND/OR KLRU)

Consolidated Financial Statements as of and for the Years Ended September 30, 2019 and 2018 and Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Capital of Texas Public Telecommunications Council (dba Austin PBS and/or KLRU):

We have audited the accompanying consolidated financial statements of Capital of Texas Public Telecommunications Council (dba Austin PBS and/or KLRU) (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, 2019 and 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

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, 2019 and 2018, 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.

Emphasis of Matter

As discussed in Note 2 to the consolidated financial statements, the Organization adopted Financial Accounting Standards Board Accounting Standards Update ("ASU") No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities,* as of and for the year ended September 30, 2019. The requirements of the ASU have been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

Maxwell Locke & Ritter LLP

Austin, Texas
January 9, 2020

CAPITAL OF TEXAS PUBLIC TELECOMMUNICATIONS COUNCIL (DBA AUSTIN PBS AND/OR KLRU)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2019 AND 2018

	2019	2018
ASSETS		
Cash and cash equivalents	$ 1,463,450	$ 1,502,724
Investments	6,046,553	5,804,160
Accounts receivable	390,569	869,481
Capital campaign contributions receivable, net	1,301,110	-
Prepaid expenses	2,376,669	2,238,437
Program rights	2,724,294	2,573,799
Cash restricted to investment in building construction	635,242	-
Property and equipment, net	2,830,216	2,825,594
TOTAL ASSETS	$ 17,768,103	$ 15,814,195
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable	$ 2,916,811	$ 2,506,941
Accrued liabilities	23,629	23,459
Deferred revenue	1,464,472	1,732,270
Total liabilities	4,404,912	4,262,670
NET ASSETS:		
Without donor restrictions, undesignated	6,484,519	7,079,630
Without donor restrictions, management-designated reserve	543,636	281,954
Without donor restrictions, management-designated endowment reserve	1,735,820	1,568,628
With donor restrictions	4,599,216	2,621,313
Total net assets	13,363,191	11,551,525
TOTAL LIABILITIES AND NET ASSETS	$ 17,768,103	$ 15,814,195

See notes to consolidated financial statements.

CAPITAL OF TEXAS PUBLIC TELECOMMUNICATIONS COUNCIL (DBA AUSTIN PBS AND/OR KLRU)

CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES:			
Membership	$ 8,402,429	-	8,402,429
In-kind support and contributed services	3,930,216	-	3,930,216
Community service grant	1,953,311	-	1,953,311
Capital contribution	-	1,936,352	1,936,352
License fees, royalties, and other	1,818,954	-	1,818,954
Production underwriting	1,268,382	-	1,268,382
Special events	790,774	-	790,774
Program underwriting	556,348	-	556,348
Educational services	356,875	-	356,875
Investment return, net	99,357	147,798	247,155
Net assets released from restrictions	106,247	(106,247)	-
Total revenues	19,282,893	1,977,903	21,260,796
EXPENSES:			
Program services:			
Production	5,651,952	-	5,651,952
Programming	3,113,192	-	3,113,192
Broadcasting	2,427,608	-	2,427,608
Marketing and communications	762,278	-	762,278
New Ventures	715,202	-	715,202
Total program services	12,670,232	-	12,670,232
Support services:			
Management and general	3,683,927	-	3,683,927
Membership and development	3,094,971	-	3,094,971
Total support services	6,778,898	-	6,778,898
Total expenses	19,449,130	-	19,449,130
CHANGE IN NET ASSETS	(166,237)	1,977,903	1,811,666
NET ASSETS, beginning of year	8,930,212	2,621,313	11,551,525
NET ASSETS, end of year	$ 8,763,975	4,599,216	13,363,191

See notes to consolidated financial statements.

CAPITAL OF TEXAS PUBLIC TELECOMMUNICATIONS COUNCIL (DBA AUSTIN PBS AND/OR KLRU)

CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES:			
Membership	$ 8,187,108	-	8,187,108
In-kind support and contributed services	2,083,346	-	2,083,346
Community service grant	1,863,461	-	1,863,461
License fees, royalties, and other	1,608,059	-	1,608,059
Production underwriting	1,967,775	-	1,967,775
Special events	815,610	-	815,610
Educational services	263,215	-	263,215
Program underwriting	634,241	-	634,241
Investment return, net	148,856	254,638	403,494
Endowment contributions	-	3,500	3,500
Net assets released from restrictions	90,000	(90,000)	-
Total revenues	17,661,671	168,138	17,829,809
EXPENSES:			
Program services:			
Production	5,630,828	-	5,630,828
Programming	2,936,082	-	2,936,082
Broadcasting	2,648,425	-	2,648,425
Marketing and communications	711,766	-	711,766
New Ventures	1,181,920	-	1,181,920
Total program services	13,109,021	-	13,109,021
Support services:			
Management and general	1,546,471	-	1,546,471
Membership and development	2,872,827	-	2,872,827
Total support services	4,419,298	-	4,419,298
Total expenses	17,528,319	-	17,528,319
CHANGE IN NET ASSETS	133,352	168,138	301,490
NET ASSETS, beginning of year	8,796,860	2,453,175	11,250,035
NET ASSETS, end of year	$ 8,930,212	2,621,313	11,551,525

See notes to consolidated financial statements.

CAPITAL OF TEXAS PUBLIC TELECOMMUNICATIONS COUNCIL
(DBA AUSTIN PBS AND/OR KLRU)

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED SEPTEMBER 30, 2019

	Program Services						Support Services			
	Production	Programming	Broadcasting	Marketing and Communications	New Ventures	Total Program Services	Management and General	Membership and Development	Total Support Services	Total
Salaries	$ 1,093,985	565,222	905,250	447,948	188,125	3,200,530	731,024	926,319	1,657,343	4,857,873
Production costs	2,401,649	-	-	-	186,945	2,588,594	-	-	-	2,588,594
Dues and subscriptions	2,266	2,153,269	799	598	-	2,156,932	39,153	17,013	56,166	2,213,098
Benefits	238,484	114,204	214,368	96,946	26,394	690,396	163,049	188,860	351,909	1,042,305
Professional services	9,259	11,500	33,900	3,915	129,300	187,874	78,975	206,274	285,249	473,123
Maintenance and support	52	12,410	291,749	-	-	304,211	17,777	121,194	138,971	443,182
Direct mail and digital	-	-	-	-	-	-	-	426,470	426,470	426,470
Occupancy	-	-	203,864	-	-	203,864	210,673	-	210,673	414,537
Events	30,078	3,293	-	30	-	33,401	-	305,784	305,784	339,185
Contract services	110,737	-	84,760	5,160	5,309	205,966	28,323	75,380	103,703	309,669
Meetings and travel	22,297	21,781	20,894	7,357	5,710	78,039	37,110	107,333	144,443	222,482
Supplies	5,300	65,443	60,547	346	2,314	133,950	3,594	30,210	33,804	167,754
Postage and shipping	1,248	2,330	12,937	1,028	9,192	26,735	2,412	99,449	101,861	128,596
Advertising and promotions	650	15,056	-	62,569	2,979	81,254	4,079	5,117	9,196	90,450
Printing, graphics, and photography	3,449	254	-	30,595	-	34,298	315	46,859	47,174	81,472
Insurance	-	-	-	-	18,495	18,495	57,026	-	57,026	75,521
Internet and telephone	4,530	1,934	31,405	744	96	38,709	3,164	1,562	4,726	43,435
Equipment rental	-	-	-	-	-	-	23,487	2,011	25,498	25,498
Web expense	12	-	-	17,677	6,587	24,276	-	-	-	24,276
Training	95	-	2,421	-	-	2,516	16,452	997	17,449	19,965
Indirect costs	-	24	-	-	-	24	-	-	-	24
Other	10,705	2,403	13,657	250	133,756	160,771	66,333	257,095	323,428	484,199
Subtotal	3,934,796	2,969,123	1,876,551	675,163	715,202	10,170,835	1,482,946	2,817,927	4,300,873	14,471,708
Depreciation and amortization of property and equipment	418,369	104,589	418,367	-	-	941,325	52,296	52,296	104,592	1,045,917
Loss on disposition of property and equipment	-	-	-	-	-	-	1,289	-	1,289	1,289
Subtotal	418,369	104,589	418,367	-	-	941,325	53,585	52,296	105,881	1,047,206
In-kind support and contributed services	1,298,787	39,480	132,690	87,115	-	1,558,072	2,147,396	224,748	2,372,144	3,930,216
Total expenses	$ 5,651,952	3,113,192	2,427,608	762,278	715,202	12,670,232	3,683,927	3,094,971	6,778,898	19,449,130

See notes to consolidated financial statements.

CAPITAL OF TEXAS PUBLIC TELECOMMUNICATIONS COUNCIL
(DBA AUSTIN PBS AND/OR KLRU)

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED SEPTEMBER 30, 2018

	Program Services							Support Services		
	Production	Programming	Broadcasting	Marketing and Communications	New Ventures	Total Program Services	Management and General	Membership and Development	Total Support Services	Total
Salaries	$ 979,812	552,266	985,031	399,591	174,650	3,091,350	630,291	898,159	1,528,450	4,619,800
Production costs	2,309,884	-	-	-	570,847	2,880,731	-	-	-	2,880,731
Dues and subscriptions	1,667	2,038,610	872	543	-	2,041,692	40,138	17,181	57,319	2,099,011
Benefits	218,617	118,552	226,238	73,701	24,925	662,033	154,859	179,906	334,765	996,798
Professional services	35,227	800	225,836	-	98,017	359,880	57,538	132,027	189,565	549,445
Occupancy	-	7	205,512	-	36,780	242,299	223,688	-	223,688	465,987
Direct mail and digital	-	-	-	-	-	-	-	349,384	349,384	349,384
Maintenance and support	-	12,059	169,292	-	-	181,351	13,218	132,535	145,753	327,104
Events	17,933	3,322	-	14,315	-	35,570	-	223,496	223,496	259,066
Meetings and travel	19,999	20,036	17,945	5,277	23,155	86,412	47,357	104,141	151,498	237,910
Supplies	13,174	20,242	105,737	137	1,257	140,547	4,469	31,154	35,623	176,170
Contract services	37,475	300	10,894	2,000	5,296	55,965	30,262	61,545	91,807	147,772
Postage and shipping	960	2,228	17,988	916	7,838	29,930	2,474	101,428	103,902	133,832
Advertising and promotions	276	4,910	-	83,694	2,981	91,861	800	4,635	5,435	97,296
Printing, graphics, and photography	3,909	-	-	26,487	-	30,396	-	49,101	49,101	79,497
Insurance	-	-	-	-	18,131	18,131	60,682	-	60,682	78,813
Internet and telephone	3,456	1,971	23,377	592	96	29,492	5,642	1,389	7,031	36,523
Web expense	-	-	-	20,559	6,424	26,983	-	-	-	26,983
Equipment rental	-	-	-	-	-	-	22,105	4,347	26,452	26,452
Training	3,119	-	2,251	-	-	5,370	12,751	997	13,748	19,118
Indirect costs	-	(3,074)	-	-	-	(3,074)	-	-	-	(3,074)
Other	13,983	1,014	6,260	1,833	211,523	234,613	49,284	251,208	300,492	535,105
Subtotal	3,659,491	2,773,243	1,997,233	629,645	1,181,920	10,241,532	1,355,558	2,542,633	3,898,191	14,139,723
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
Loss on disposition of property and equipment	-	-	-	-	-	-	2,482	-	2,482	2,482
Subtotal	521,107	130,278	521,107	-	-	1,172,492	67,620	65,138	132,758	1,305,250
In-kind support and contributed services	1,450,230	32,561	130,085	82,121	-	1,694,997	123,293	265,056	388,349	2,083,346
Total expenses	$ 5,630,828	2,936,082	2,648,425	711,766	1,181,920	13,109,021	1,546,471	2,872,827	4,419,298	17,528,319

See notes to consolidated financial statements.

CAPITAL OF TEXAS PUBLIC TELECOMMUNICATIONS COUNCIL (DBA AUSTIN PBS AND/OR KLRU)

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED SEPTEMBER 30, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 1,811,666	$ 301,490
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Contributions restricted for building construction	(1,936,352)	-
Amortization of program rights	1,505,301	1,410,830
Depreciation and amortization of property and equipment	1,045,917	1,302,768
Loss on disposition of property and equipment	1,289	2,482
Net realized and unrealized gains on investments	(162,711)	(343,112)
Contributions restricted for endowment funds	-	(3,500)
Changes in operating assets and liabilities that provided (used) cash:		
Accounts receivable	478,912	(209,783)
Pledges receivable	(1,301,110)	-
Prepaid expenses	(138,232)	(17,438)
Accounts payable	354,167	119,399
Accrued liabilities	170	2,820
Deferred revenue	(267,798)	12,923
Net cash provided by operating activities	1,391,219	2,578,879
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(1,887,618)	(2,540,862)
Proceeds from sales and maturities of investments	1,807,936	804,612
Purchases of program rights	(1,655,796)	(1,559,961)
Purchases of property and equipment	(996,125)	(400,178)
Net cash used in investing activities	(2,731,603)	(3,696,389)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions restricted for endowment funds	-	3,500
Contributions restricted for building construction	1,936,352	-
Net cash provided by investing activities	1,936,352	3,500
NET CHANGE IN CASH AND CASH EQUIVALENTS	595,968	(1,114,010)
CASH AND CASH EQUIVALENTS, beginning of year	1,502,724	2,616,734
CASH AND CASH EQUIVALENTS, end of year	$ 2,098,692	$ 1,502,724
SUPPLEMENTAL NONCASH DISCLOSURE-		
Purchases of property and equipment recorded in accounts payable	$ 130,263	$ 74,560

See notes to consolidated financial statements.

1. NATURE OF OPERATIONS

Capital of Texas Public Telecommunications Council (dba Austin PBS and/or KLRU) ("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.

Reclassifications - Certain amounts in the prior year have been reclassified to conform to the presentation adopted in the current year. Total net assets were unchanged due to these reclassifications.

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

Without Donor Restrictions **-** These net assets are not subject to donor-imposed stipulations. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on assets or liabilities are reported as increases or decreases in net assets without donor restrictions, unless their use is restricted by explicit donor stipulation or by law. Net assets without donor restrictions are those currently available for use by the Organization or at the discretion of the Board of Directors (the "Board") and Management for the Organization's use. Management has designated portions of net assets without donor restrictions for future operations and the endowment fund (Note 10).

With Donor Restrictions **-** These net assets are subject to donor-imposed stipulations, which limit their use to a specific purpose and/or the passage of time, or which require them to be maintained permanently. Net assets which are required to be maintained permanently are not available for use in operations and limitations neither expire by passage of time nor can be fulfilled or otherwise removed by actions of 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 and 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. This activity is reported as investment return in the consolidated statements of activities, and is recorded net of related investment expenses and 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, 2019 and 2018, the Organization did not record an allowance for uncollectible accounts receivables as management deemed all balances to be collectible.

Capital Campaign Contributions Receivable - Unconditional 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. Contributions receivable include amounts pledged over a period of one to five years. The Organization records a discount to reflect the present value of receivables using approximate market rates applicable to the years in which the pledge is included in contribution revenue (Note 6). No allowance for uncollectible contributions receivable has been recorded, as historically the Organization has not experienced significant uncollectible amounts.

Program Rights - Program rights are recorded at cost and amortized on a straight-line basis over the period of the license agreements, ranging from one to three years. Amortization, included with dues and subscriptions programming expense in the consolidated statements of activities, is expected to be $1,422,911, $907,202, and $394,181 during the years ending September 30, 2020, 2021, and 2022, 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 net assets with donor restrictions, 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 net assets without donor restrictions 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 performed by individuals possessing these skills and would otherwise 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.

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.

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.

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 consolidated financial statements present expenses by functional and natural classification. Natural expenses directly attributable to a specific functional area are reported as expenses of those functional areas. Accordingly, 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, 2019 and 2018. 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 during the years ended September 30, 2019 and 2018.

Recently Adopted Accounting Pronouncement - In August 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This guidance is intended to improve the net asset classification requirements and the information presented in the consolidated financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows.
The guidance requires presentation on the face of the consolidated 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 previously required three classes of net assets, unrestricted, temporarily restricted, and permanently restricted. Entities are also required to provide enhanced disclosures about liquidity, Board-designated amounts, and expense by both their natural and functional classification. The standard is effective for fiscal years beginning after December 15, 2017. During the year ended September 30, 2019, management implemented the new standard, the effect of which is reflected in the consolidated financial statements and within the footnotes.

As of September 30, 2019, reclassifications driven by the adoption of ASU 2016-14 consisted of amounts previously reported as unrestricted net assets now presented as net assets without donor restrictions and amounts previously reported as temporarily and permanently restricted net assets now presented as net assets with donor restrictions.

Recently Issued Accounting Pronouncements - In May 2014 and August 2015, the FASB issued 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 consolidated statements of financial position. Interest on the lease liability and amortization of the right-of-use asset are recognized separately in the consolidated statements 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, 2020 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, 2019 and 2018, one sponsor accounts for 24% and two sponsors comprised 68% of accounts receivable, respectively. As of September 30, 2019, two sponsors account for 34% of capital campaign contributions receivable and two sponsors account for 28% of capital campaign revenue.

4. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

As of September 30, 2019, the Organization's financial assets available to management for general expenditure within one year were as follows:

Cash and cash equivalents	$ 1,463,450
Investments	6,046,553
Accounts receivable	390,569
Total financial assets available within one year	7,900,572
Less: amounts unavailable for general expenditure within one year- Donor-restricted endowment funds	(2,662,864)
Total amount available for general expenditure within one year	$ 5,237,708

The Organization invests its funds in liquid investments in a manner to maximize return, minimize interest rate risk, and support cash flow requirements. The Board ensures the Organization's financial stability by approving an annual budget prior to the start of each fiscal year. Any expenditures not in the approved budget must be approved. The Organization maintains financial policies to ensure funds are allocated in a manner consistent with the mission of the Organization. The Organization also has an available $750,000 revolving line of credit from a financial institution maturing in March 2021 (Note 8).

5. INVESTMENTS

Investments reported at fair value as of September 30, 2019 were as follows:

		Fair Value Measurements Using:		
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Corporate equities	$ 2,547,417	$ 2,547,417	$ -	$ -
Certificates of deposit	1,647,870	1,647,870	-	-
Corporate bonds	930,355	-	930,355	-
Exchange traded funds	394,787	394,787	-	-
Money market funds	229,158	229,158	-	-
U.S. Treasuries	151,617	-	151,617	-
Cash equivalents	57,070	57,070	-	-
Municipal bonds	52,030	-	52,030	-
Real estate investment trust	35,602	35,602	-	-
Mortgage pools - FHLMC	647	-	647	-
Total investments	$ 6,046,553	$ 4,911,904	$ 1,134,649	$ -

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	$ -	$ -
Certifications 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	$ 4,965,172	$ 838,988	$ -

Corporate equities, certificates of deposit, exchange traded, funds, money market funds, real estate investment trusts, and cash equivalents are classified within Level 1 of the fair value hierarchy because they are sold on an active market and valued using quoted market prices, broker dealer quotations or other alternative pricing sources with reasonable levels of price transparency. Corporate and municipal bonds, U.S. treasuries, 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:

	2019	2018
Realized gains on investments	$ 505,057	$ 1,187,418
Unrealized losses on investments	(342,346)	(844,306)
Dividend and interest income	110,325	84,683
Investment management fees	(25,881)	(24,301)
Total	$ 247,155	$ 403,494

6. CAPITAL CAMPAIGN CONTRIBUTIONS RECEIVABLE

Capital campaign contributions receivable include unconditional promises to give to the capital campaign. Capital campaign contributions receivable were comprised of the following as of September 30:

	2019	2018
Amounts due in:		
Less than one year	$ 582,000	$ -
One to five years	772,644	-
	1,354,644	-
Less discount to net present value	(53,534)	-
Total	$ 1,301,110	$ -

The present value of estimated future cash flows was calculated using a discount rate of 5.00% as of September 30, 2019.

7. PROPERTY AND EQUIPMENT

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

	2019	2018
Studio broadcast equipment	$ 9,988,492	$ 9,927,884
Transmitter / antenna	1,884,199	1,884,199
Office and transportation equipment	1,085,818	1,085,818
Leasehold improvements	1,085,543	1,085,543
	14,044,052	13,983,444
Less accumulated depreciation and amortization	(12,585,395)	(11,564,901)
Construction in process	1,371,559	407,051
Total	$ 2,830,216	$ 2,825,594

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, 2019 and 2018. Of the equipment subject to the NTIA liens, $325,381 will expire in September 2020.

8. LINE OF CREDIT

KLRU has available a $750,000 revolving line of credit with a financial institution which expires on March 31, 2021. This line bears interest at the bank’s prime rate (5.00% and 5.25% at September 30, 2019 and 2018, respectively) and is collateralized by equipment. No balance was outstanding as of September 30, 2019 and 2018. The line of credit agreement contains a financial covenant that requires the loan to be used for working capital.

9. NET ASSETS WITH DONOR RESTRICTIONS

During the year ended September 30, 2019, the Organization began a capital campaign to fund the renovation of a building to serve as the Organization's future headquarters that will include a new administration building and studio space.

Net assets with donor restrictions were restricted for the following purposes as of September 30:

	2019	2018
Permanent restrictions-		
Donor-restricted endowment funds (Note 10)	$ 951,814	$ 951,814
Temporary restrictions:		
Capital campaign	1,936,352	-
Unappropriated earnings from permanently restricted donor endowments	1,711,050	1,669,499
Total	$ 4,599,216	$ 2,621,313

10. 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. Donor-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 net assets with donor restrictions 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 net assets without donor restrictions. 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: each year the Endowment Fund reaches $2,000,000, the Endowment Fund may distribute annually up to 5% of the trailing five year average of the investment fund's total market value calculated using the trailing 20 calendar quarters ending September 30 of the current fiscal year. The spending rate calculation shall not include the market value of gifts received within the previous 12 months of the final date of the calculation period that are greater than 10% of the previous fiscal year's market value. Any distribution in excess of 5% of a trailing five year average of the Endowment Fund's total market value must be recommended by the Endowment Committee and approved by the Board. 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 during the year ended September 30, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 1,568,628	$ 2,621,313	$ 4,189,941
Investment income	26,623	45,290	71,913
Management fees	(9,634)	(16,247)	(25,881)
Net realized and unrealized gains	60,203	102,508	162,711
Appropriations for expenditure	90,000	(90,000)	-
Endowment net assets, end of year	$ 1,735,820	$ 2,662,864	$ 4,398,684

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

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 1,271,623	$ 2,453,175	$ 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	$ 2,621,313	$ 4,189,941

Endowment Fund net asset composition by type of fund as of September 30, 2019 consisted of the following:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	$ -	$ 2,662,864	$ 2,662,864
Management reserve investment	1,735,820	-	1,735,820
Total funds	$ 1,735,820	$ 2,662,864	$ 4,398,684

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

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	$ -	$ 2,621,313	$ 2,621,313
Management reserve investment	1,568,628	-	1,568,628
Total funds	$ 1,568,628	$ 2,621,313	$ 4,189,941

A description of endowment net assets classified with donor restrictions were as follows as of September 30:

	2019	2018
Permanently Donor 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	$ 951,814
Temporarily Donor Restricted Net Assets- The portion of perpetual endowment funds subject to a restriction under TUPMIFA	$ 1,711,050	$ 1,699,499

11. 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 net assets without donor restrictions; 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 $1,953,311 and $1,863,461 for the CSG awarded during the years ended September 30, 2019 and 2018, 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.

12. IN-KIND SUPPORT AND CONTRIBUTED SERVICES

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

	2019	2018
Social media and strategic planning services	$ 2,025,000	$ -
Venue and parking	818,400	818,400
Office space	737,169	722,692
Advertising and marketing services	204,458	150,000
Production and programming services and use of technical equipment	121,714	381,317
Legal services	11,960	7,937
Furniture	11,515	
Architect services	-	3,000
	$ 3,930,216	$ 2,083,346

13. 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, 2019:

2020	$ 380,531
2021	161,622
2022	161,454
2023	109,971
Total minimum lease payments	$ 813,578

Rent expense on all operating leases totaled $364,730 and $373,762 during the years ended September 30, 2019 and 2018, respectively.

14. 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, as defined. The Organization matches up to 3% of the additional tax-deferred contributions made by employees. The Organization's contributions to the retirement plan totaled $274,037 and $262,397 during the years ended September 30, 2019 and 2018, respectively.

15. RELATED PARTY TRANSACTIONS

Contributions from certain members of the Board totaled $1,625,529 and $288,638 during the years ended September 30, 2019 and 2018, respectively. Outstanding receivables from the Board totaled $975,255 and $288,638 during the years ended September 30, 2019 and 2018, respectively.

16. SUBSEQUENT EVENTS

On December 19, 2019, the Organization entered into a property lease with an academic institution to be utilized as production and broadcast studio in addition to office space. The building and associated land are being improved by the academic institution. The lease shall commence after the Organization takes possession and begins operation, expected to take place after a construction period. The lease term is 30 years, with two successive renewal options of five years each. Base rent is monthly installments of $54,432 and additional rent of $27,216 per month in order to reimburse the academic institution for a portion of property operating costs. The additional rent increases 3% annually. The Organization will also provide certain academic benefits to the academic institution, as defined by the lease agreement. Not less than 10 years after lease commencement, the academic institution shall have the right to terminate the lease if a determination is made that the property should serve a higher priority purpose. The academic institution would then be required to provide relocation assistance and expense reimbursement.

The Organization has evaluated subsequent events through January 9, 2020 (the date the consolidated financial statements were available to be issued).