CAPITAL OF TEXAS PUBLIC TELECOMMUNICATIONS COUNCIL

Consolidated Financial Statements as of and for the Years Ended September 30, 2017 and 2016 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 the 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, 2017 and 2016, and the related consolidated statements of activities and functional expenses for the year ended September 30, 2017, the consolidated statements of cash flows for the years then ended September 30, 2017 and 2016, 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 consolidated financial position of the Organization as of September 30, 2017 and 2016, and the changes in its net assets for the year ended September 30, 2017, and the changes in its cash flows for the years then ended September 30, 2017 and 2016 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 statements of activities and functional expenses for the year ended September 30, 2016, and our report dated December 12, 2016, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Maxwell Locke + Ritter LLP

Austin, Texas
December 14, 2017

CAPITAL OF TEXAS PUBLIC TELECOMMUNICATIONS COUNCIL

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2017 AND 2016

	2017	2016
ASSETS:		
Cash and cash equivalents	$ 2,616,734	$ 3,261,755
Investments	3,724,798	3,358,427
Accounts receivable	659,698	461,953
Pledges receivable	-	136,000
Program rights	2,424,668	2,198,407
Prepaid expenses	2,220,999	2,121,724
Property and equipment, net	3,656,106	4,123,232
TOTAL ASSETS	$ 15,303,003	$ 15,661,498
LIABILITIES AND NET ASSETS:		
LIABILITIES:		
Accounts payable	$ 2,312,982	$ 2,064,680
Accrued liabilities	20,639	21,040
Deferred revenue	1,719,347	2,705,711
TOTAL LIABILITIES	4,052,968	4,791,431
NET ASSETS:		
Unrestricted - management reserve	279,026	205,488
Unrestricted - management reserve investment	1,271,623	1,135,060
Unrestricted - undesignated	7,246,211	7,093,163
Total unrestricted	8,796,860	8,433,711
Temporarily restricted	1,504,861	1,488,042
Permanently restricted	948,314	948,314
TOTAL NET ASSETS	11,250,035	10,870,067
TOTAL LIABILITIES AND NET ASSETS	$ 15,303,003	$ 15,661,498

See notes to consolidated financial statements.

CAPITAL OF TEXAS PUBLIC TELECOMMUNICATIONS COUNCIL

CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2017
(with summarized comparative totals for the year ended September 30, 2016)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017 Total	2016 Total
REVENUES:					
Membership	$ 7,118,432	$ -	$ -	$ 7,118,432	$ 9,653,648
License fees, royalties and other	2,037,616	-	-	2,037,616	1,731,335
In-kind support and contributed services	1,833,729	-	-	1,833,729	2,146,052
Community service grant	1,699,020	-	-	1,699,020	1,670,973
Production	1,383,561	-	-	1,383,561	2,092,235
Special events	864,509	-	-	864,509	137,835
Program underwriting	610,098	-	-	610,098	746,091
Capital contribution	523,972	-	-	523,972	475,806
Investment return	141,348	321,653	-	463,001	251,928
Educational services	256,528	-	-	256,528	373,097
Endowment contributions	-	-	-	-	250
Net assets released from restrictions	304,834	(304,834)	-	-	-
Total revenues	16,773,647	16,819	-	16,790,466	19,279,250
EXPENSES:					
Program services:					
Production	5,546,816	-	-	5,546,816	6,964,945
Programming	2,769,890	-	-	2,769,890	2,571,232
Broadcasting	2,407,635	-	-	2,407,635	1,753,680
Marketing and communications	642,256	-	-	642,256	700,708
New Ventures	817,726	-	-	817,726	622,777
Total program services	12,184,323	-	-	12,184,323	12,613,342
Support services:					
Membership and development	2,562,340	-	-	2,562,340	2,044,763
Management and general	1,663,835	-	-	1,663,835	1,670,964
Total support services	4,226,175	-	-	4,226,175	3,715,727
Total expenses	16,410,498	-	-	16,410,498	16,329,069
CHANGE IN NET ASSETS	363,149	16,819	-	379,968	2,950,181
NET ASSETS, BEGINNING OF YEAR	8,433,711	1,488,042	948,314	10,870,067	7,919,886
NET ASSETS, END OF YEAR	$ 8,796,860	$ 1,504,861	$ 948,314	$ 11,250,035	$ 10,870,067

See notes to consolidated financial statements.

CAPITAL OF TEXAS PUBLIC TELECOMMUNICATIONS COUNCIL

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED SEPTEMBER 30, 2017
(with summarized comparative totals for the year ended September 30, 2016)

	Program Services						Support Services				
	Production	Programming	Broadcasting	Marketing and Communications	New Ventures	Total Program Services	Membership and Development	Management and General	Total Support Services	2017 Total	2016 Total
Salaries, wages, and benefits	$ 1,072,899	$ 646,111	$ 1,150,965	$ 435,947	$ 183,828	$ 3,489,750	$ 1,015,458	$ 777,586	$ 1,793,044	$ 5,282,794	$ 5,275,641
Dues and subscriptions	1,665	1,863,941	651	822	308,051	2,175,130	14,886	51,736	66,622	2,241,752	1,877,787
Production costs	2,232,104	-	-	-	-	2,232,104	-	-	-	2,232,104	3,150,026
Occupancy	3,432	4,234	227,446	510	60,058	295,680	22,821	294,365	317,186	612,866	608,466
Professional services	257,795	9,665	48,189	5,216	85,371	406,236	61,310	92,288	153,598	559,834	530,137
Maintenance and support	2,524	13,812	240,117	320	-	256,773	133,239	11,509	144,748	401,521	234,770
Supplies and postage	54,069	56,075	65,695	2,618	7,035	185,492	92,160	10,447	102,607	288,099	300,570
Special events and other	3,413	-	-	-	-	3,413	221,074	-	221,074	224,487	10,252
Travel and meetings	35,098	16,395	7,450	8,036	13,296	80,275	88,705	30,602	119,307	199,582	121,263
Advertising and promotions	-	3,312	-	55,017	11,330	69,659	4,531	4,050	8,581	78,240	90,713
Printing and graphics	4,697	66	-	20,939	-	25,702	25,483	-	25,483	51,185	32,891
Rental equipment	-	-	-	-	-	-	-	21,202	21,202	21,202	21,227
Overhead reduction	-	(16,322)	-	-	-	(16,322)	-	-	-	(16,322)	(27,469)
Miscellaneous	30,889	18,265	7,921	2,390	148,757	208,222	637,830	178,300	816,130	1,024,352	816,021
Subtotal	3,698,585	2,615,554	1,748,434	531,815	817,726	9,412,114	2,317,497	1,472,085	3,789,582	13,201,696	13,042,295
Depreciation and of property and equipment	530,225	132,556	530,225	-	-	1,193,006	66,278	66,279	132,557	1,325,563	1,138,722
Loss on disposition of property and equipment	48,119	-	391	-	-	48,510	-	-	-	48,510	2,000
	578,344	132,556	530,616	-	-	1,241,516	66,278	66,279	132,557	1,374,073	1,140,722
In-kind support and contributed services	1,269,887	21,780	128,585	110,441	-	1,530,693	178,565	125,471	304,036	1,834,729	2,146,052
	$ 5,546,816	$ 2,769,890	$ 2,407,635	$ 642,256	$ 817,726	$ 12,184,323	$ 2,562,340	$ 1,663,835	$ 4,226,175	$ 16,410,498	$ 16,329,069

See notes to consolidated financial statements.

CAPITAL OF TEXAS PUBLIC TELECOMMUNICATIONS COUNCIL

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 379,968	$ 2,950,181
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	1,325,563	1,138,722
Amortization of program rights	1,295,141	1,920,090
Loss on disposition of property and equipment	48,510	2,000
Realized and unrealized gain on investments	(397,984)	(209,440)
Contributions for endowment funds	-	(250)
Changes in operating assets and liabilities:		
Accounts receivable	(197,745)	85,434
Pledges receivable	136,000	50,200
Program rights	(1,521,402)	(2,072,272)
Prepaid expenses	(99,275)	(90,738)
Accounts payable	252,385	(42,946)
Accrued liabilities	(401)	(707)
Deferred revenue	(986,364)	983,429
Net cash provided by operating activities	234,396	4,713,703
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(911,030)	(617,973)
Purchases of investments	(1,814,990)	(3,286,505)
Proceeds from sales and maturities of investments	1,846,603	2,312,345
Net cash used in investing activities	(879,417)	(1,592,133)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions for endowment funds	-	250
Principal borrowings on lines of credit	35,147	600,000
Principal payments on lines of credit	(35,147)	(600,000)
Net cash provided by financing activities	-	250
NET CHANGE IN CASH AND CASH EQUIVALENTS	(645,021)	3,121,820
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,261,755	139,935
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 2,616,734	$ 3,261,755
SUPPLEMENTAL DISCLOSURE:		
Cash paid for interest	$ -	$ 6,620
Acquisition of property and equipment with accounts payable	$ -	$ 4,083

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 C corporation subsidiary, KLRU New Ventures ("KNV"), and a second tier LLC subsidiary, ACL Enterprises ("ACLE"), for the purpose of pursuing commercial business opportunities, in particular those associated with the 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"). ACLE is wholly owned by KNV. 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. Together, these two entities are referred to as KNV/ACLE.

KNV/ACLE's financial statements are consolidated into the financial statements of KLRU because KLRU has control over and an economic interest in these entities. All significant inter-company transactions and balances have been eliminated in the consolidation. KLRU and KNV/ACLE are collectively referred to as the Organization.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP") as defined by the Financial Accounting Standards Board Accounting Standards Codification ("ASC"). Under the accrual basis of accounting, revenue is recognized when earned regardless of when collected, and expenses are recognized when the obligation is incurred regardless of when paid.

Net Asset Classification - The consolidated financial statements report information regarding the Organization's consolidated financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified as follows:

Unrestricted **-** Net assets not subject to donor-imposed stipulations.

Temporarily Restricted **-** Net assets subject to donor-imposed stipulations that may or will be met by actions of the Organization and/or the passage of time.

Permanently Restricted **-** Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization.

Use of Estimates - The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

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 Organization'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 - Cash equivalents are comprised of short-term money market instruments with original maturities of three months or less.

Investments - Investments are stated at fair value using the market approach. The net realized and unrealized gains or losses on investments are reflected in the consolidated statements of activities as a component of investment return.

Accounts Receivable - Accounts receivable are recorded at the amount the Organization expects to collect on outstanding balances. The Organization did not record an allowance for uncollectible accounts receivables at September 30, 2017 and 2016 as management estimates all balances to be collectible.

Pledges Receivable - 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. KLRU did not record a net present value discount on pledges receivable at September 30, 2017 and 2016 as management estimates the amount would be insignificant. Management has determined that the pledges receivable are fully collectible; therefore, no allowance for uncollectible accounts was considered necessary at September 30, 2017 and 2016.

Program Rights - Program rights are recorded at cost and amortized on a straight-line basis over the period of the license agreement, ranging from 1 to 3 years. Amortization of program rights will be $1,260,903, $805,254 and $358,511 for the years ending September 30, 2018, 2019, and 2020, respectively.

Property and Equipment - Property and equipment, except those which are received as donations, are recorded at cost. Donated assets are recorded at fair value as of the date of donation. The Organization capitalizes property and equipment acquisitions over $1,000. 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. Management believes there was no impairment of long-lived assets as of September 30, 2017 and 2016.

Management Reserve Net Assets - As of September 30, 2017 and 2016, the Organization's management designated unrestricted net assets were restricted for future operations.

Management Reserve Investment Net Assets - As of September 30, 2017 and 2016, the Organization's management designated unrestricted net assets were designated for future operations and included with the unrestricted endowment.

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 considers membership revenue as contribution revenue. 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. 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. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire within the 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 market value when received. Contributions of services are recognized if the services received create or enhance nonfinancial assets or 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 valued at the fair value at the date of receipt and recognized as revenue in the period received and expense in the 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.

Production Costs and Revenue - Production costs incurred in connection with the Austin City Limits Television Series are recorded as prepaid expenses and amortized as the productions are broadcasted. Related production underwriting revenue is deferred and recognized when the broadcast occurs. All other production costs and related production underwriting revenue is recognized as expenses are incurred.

Programming Underwriting - Revenue from programming underwriting agreements is recognized as the underwriting spots are aired.

License Fees - License fees revenue is recognized based on contract terms with licensees.

Royalties - 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.

Advertising Costs - The Organization expenses advertising costs as incurred.

Functional Allocation of Expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on estimates provided by management.

Summarized Comparative Totals - The consolidated statement of activities includes certain prior year summarized comparative information in total, but not by net asset class. In addition, the 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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended September 30, 2016, from which the summarized information was derived.

Federal Income Tax Status - KLRU is a nonprofit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, 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, 2017 and 2016. 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 Internal Revenue Code, except with respect to any unrelated business income.

KLRU New Ventures, Inc. and ACL Enterprises are not exempt organizations and are subject to federal income taxation. 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.

The Organization files all required tax returns in the U.S. federal jurisdiction.

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 new 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.

Reclassifications - Certain amounts in the prior year have been reclassified to conform to the presentation adopted in the current year. There was no impact on net assets.

3. CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Organization to credit risk consist of cash and cash equivalents, investments and receivables. 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. Management believes no significant risk exists with respect to cash and cash equivalents. 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 statement of financial position. The Organization does not maintain collateral for its receivables.

4. INVESTMENTS

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

		Fair Value Measurements Using:		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market mutual funds	$ 148,439	$ 148,439	$ -	$ -
Corporate bonds	754,518	-	754,518	-
Exchange traded funds	486,498	486,498	-	-
Municipal bonds	53,008	-	53,008	-
Mortgage pools - FHLMC	1,395	-	1,395	-
Corporate equities	2,280,940	2,280,940	-	-
Total investments	$ 3,724,798	$ 2,429,379	$ 1,295,419	$ -

Investments are reported at fair value September 30, 2016 as follows:

		Fair Value Measurements Using:		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market mutual funds	$ 311,766	$ 311,766	$ -	$ -
Corporate bonds	637,271	-	637,271	-
Municipal bonds	53,389	-	53,389	-
Mortgage pools - FHLMC	1,960	-	1,960	-
Corporate equities	2,354,041	2,354,041	-	-
Total investments	$ 3,358,427	$ 2,665,807	$ 692,620	$ -

Money market funds and corporate equities 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. Fixed income securities 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 for the years ended September 30:

	2017	2016
Dividend and interest income	$ 65,017	$ 42,488
Unrealized losses on investments	(528,090)	(3,064,886)
Realized gains on investments	926,074	3,274,326
	$ 463,001	$ 251,928

5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at September 30:

	2017	2016
Studio broadcast equipment	$ 10,012,491	$ 12,015,529
Transmitter / antenna	1,884,199	1,943,438
Office and transportation equipment	1,173,615	455,325
Leasehold improvements	1,085,543	1,044,390
Subtotal	14,155,848	15,458,682
Less accumulated depreciation and amortization	(10,499,742)	(11,335,450)
Total	$ 3,656,106	$ 4,123,232

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 at September 30, 2017 and 2016. Of the equipment subject to the NTIA liens, $686,043, $331,193 and $325,381 will expire in September 2017, 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 March 31, 2019. This line provides for interest at the bank’s prime rate (4% and 3% at September 30, 2017 and 2016, respectively) and is collateralized by equipment. No balance was outstanding as of September 30, 2017 and 2016. This line of credit agreement contains a covenant that requires the loans to be used for working capital.

7. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are subject to donor-imposed stipulations that will be met by the Organization using them for the specified purpose and / or the passage of time. At September 30, 2017 and 2016, temporarily restricted net assets were restricted for the following purposes:

	2017	2016
Unappropriated earnings from permanently restricted donor endowments	$ 1,504,861	$ 1,275,054
Digitization of the ACL archives	-	212,988
Total	$ 1,504,861	$ 1,488,042

8. ENDOWMENT FUND

The Texas Uniform Prudent Management of Institutional Funds Act ("TUPMIFA") requires and the Board of Directors (the "Board") have 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 the Organization in a manner consistent with the standard of prudence prescribed by TUPMIFA and the Board's spending policy.

The Organization 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 Organization's Endowment Fund. The Board confirmed management's decision and authorized management of the Organization 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 investment policy adopted by the Board 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, 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)
Realized and unrealized gains	118,612	279,372	-	397,874
Appropriations for expenditure	-	(70,000)	-	(70,000)
Endowment net assets, end of year	$ 1,271,623	$ 1,504,861	$ 948,314	$ 3,724,798

Changes in Endowment Fund net assets were as follows for the year ended September 30, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 134,144	$ 1,092,620	$ 948,064	$ 2,174,828
Contributions	-	-	250	250
Management's transfer to unrestricted endowment	1,000,000	-	-	1,000,000
Investment income	916	39,556	-	40,472
Management fees	-	(16,844)	-	(16,844)
Realized and unrealized gain	-	209,722	-	209,722
Appropriations for expenditure	-	(50,000)	-	(50,000)
Endowment net assets, end of year	$ 1,135,060	$ 1,275,054	$ 948,314	$ 3,358,428

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

Endowment Fund net asset composition by type of fund as of September 30, 2016 consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 1,275,054	$ 948,314	$ 2,223,368
Management's transfer to unrestricted endowment	1,000,916	-	-	1,000,916
Management reserve investment	134,144	-	-	134,144
Total funds	$ 1,135,060	$ 1,275,054	$ 948,314	$ 3,358,428

A description of amounts classified as permanently restricted net assets and temporarily restricted net assets (Endowment Fund only) is as follows as of September 30:

	2017	2016
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	$ 948,314	$ 948,314
Temporarily Restricted Net Assets- The portion of perpetual endowment funds subject to a restriction under TUPMIFA- Without purpose restrictions	$ 1,504,861	$ 1,275,054

9. COMMUNITY SERVICE GRANT

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 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 $1,699,020 and $1,670,973 for the CSG awarded during the years ended September 30, 2017 and 2016, respectively.

10. IN-KIND SUPPORT AND CONTRIBUTED SERVICES

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

	2017	2016
Venue and parking	$ 803,400	$ 893,400
Office space	714,358	661,348
Production and programming services and use of technical equipment	309,404	564,527
Legal services	16,567	26,777
	$ 1,843,729	$ 2,146,052

11. LEASE COMMITMENTS

The Organization leases its studio and office on a renewable, month-to-month basis and leases equipment consisting of a broadcasting tower, transmitter space and other office equipment under non-cancelable operating lease agreements which expire through fiscal year 2022. Future minimum operating lease payments are as follows for the years ended September 30:

2018	$ 345,462
2019	22,756
2020	18,778
2021	17,352
Total minimum lease payments	$ 404,348

Total rental expense on all operating leases was $374,745 and $370,881 for the years ended September 30, 2017 and 2016, respectively.

12. RETIREMENT PLAN

The Organization provides a retirement plan for 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 in accordance with Section 403(b) of the Code. 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 were approximately $229,000 and $213,000 for the years ended September 30, 2017 and 2016, respectively.

13. RELATED PARTY TRANSACTIONS

Contributions from board members were $251,292 and $189,785 during the years ended September 30, 2017 and 2016, respectively.

14. CONTINGENCIES

The Organization receives government grants 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 the Organization's management, such disallowances, if any, would not be significant.

15. SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through December 14, 2017 (the date the consolidated financial statements were available to be issued), and no events have occurred from the statement of financial position date through that date that would impact the financial statements.