

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

**Consolidated Financial Statements
as of and for the Years Ended
September 30, 2022 and 2021 and
Independent Auditors' Report**





MAXWELL LOCKE & RITTER LLP

Accountants and Consultants

An Affiliate of CPAmerica International

tel (512) 370 3200 fax (512) 370 3250

www.mlrpc.com

Austin: 401 Congress Avenue, Suite 1100

Austin, TX 78701

Round Rock: 411 West Main Street, Suite 300

Round Rock, TX 78664

Independent Auditors' Report

To the Board of Directors of

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

Opinion

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, Austin PBS New Ventures, Inc., (a Texas corporation) (collectively, the "Organization"), which comprise the consolidated statements of financial position as of September 30, 2022 and 2021, 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.

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, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

Affiliated Company

ML&R WEALTH MANAGEMENT LLC

"A Registered Investment Advisor"

This firm is not a CPA firm

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.


Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.



Austin, Texas
March 6, 2023

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

**Consolidated Statements of Financial Position
September 30, 2022 and 2021**

	2022	2021
Assets		
Cash and cash equivalents	\$ 10,123,538	\$ 7,879,131
Investments	5,031,744	6,243,098
Accounts receivable	892,090	1,349,433
Capital campaign contributions receivable, net	1,125,929	2,122,881
Prepaid expenses	1,725,710	1,626,009
Program rights	1,442,471	2,956,537
Cash restricted to investment in building construction	2,148,992	3,061,471
Property and equipment, net	9,486,531	6,840,020
Total assets	<u>\$ 31,977,005</u>	<u>\$ 32,078,580</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 1,225,209	\$ 2,463,584
Accrued liabilities	285,484	946,100
Deferred revenue	1,357,591	1,107,456
Total liabilities	2,868,284	4,517,140
Net assets:		
Without donor restrictions:		
Undesignated	14,588,497	12,393,861
Management-designated reserve	246,506	246,506
Management-designated endowment reserve	2,100,425	2,616,558
Total net assets without donor restrictions	16,935,428	15,256,925
With donor restrictions	12,173,293	12,304,515
Total net assets	29,108,721	27,561,440
Total liabilities and net assets	<u>\$ 31,977,005</u>	<u>\$ 32,078,580</u>

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, 2022
(with comparative totals for the year ended September 30, 2021)

	2022			
	Without Donor Restrictions	With Donor Restrictions	Total	2021 Total
Revenues and net assets released				
from restrictions:				
Memberships	\$ 10,061,522	-	10,061,522	9,086,715
Community service grant	1,902,928	-	1,902,928	1,953,967
License fees, royalties, and other	1,880,608	-	1,880,608	2,781,804
Production underwriting	1,207,368	-	1,207,368	1,004,715
In-kind support and contributed services	1,060,819	-	1,060,819	913,758
Special events	712,522	-	712,522	2,213,157
Contribution	-	500,000	500,000	-
Program underwriting	482,344	-	482,344	298,933
Educational services	405,499	-	405,499	289,320
Capital contributions	-	187,251	187,251	2,083,612
Investment return (loss), net	(493,260)	(692,222)	(1,185,482)	991,455
Paycheck Protection Program loan forgiveness	-	-	-	1,260,000
Endowment contributions	-	-	-	3,000
Net assets released from restrictions	126,251	(126,251)	-	-
Total revenues and net assets released from restrictions	17,346,601	(131,222)	17,215,379	22,880,436
Expenses:				
Program services:				
Production	4,393,468	-	4,393,468	3,852,970
Programming	2,553,979	-	2,553,979	2,826,313
Broadcasting	1,607,444	-	1,607,444	1,621,575
New Ventures	745,823	-	745,823	541,374
Marketing and communications	445,780	-	445,780	320,130
Total program services	9,746,494	-	9,746,494	9,162,362
Support services:				
Membership and development	3,518,592	-	3,518,592	2,800,570
Management and general	2,403,012	-	2,403,012	1,749,252
Total support services	5,921,604	-	5,921,604	4,549,822
Total expenses	15,668,098	-	15,668,098	13,712,184
Change in net assets	1,678,503	(131,222)	1,547,281	9,168,252
Net assets, beginning of year	15,256,925	12,304,515	27,561,440	18,393,188
Net assets, end of year	\$ 16,935,428	12,173,293	29,108,721	27,561,440

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, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and net assets released from restrictions:			
Memberships	\$ 9,086,715	-	9,086,715
Community service grant	1,953,967	-	1,953,967
License fees, royalties, and other	2,781,804	-	2,781,804
Production underwriting	1,004,715	-	1,004,715
In-kind support and contributed services	913,758	-	913,758
Special events	2,213,157	-	2,213,157
Program underwriting	298,933	-	298,933
Educational services	289,320	-	289,320
Capital contributions	-	2,083,612	2,083,612
Investment return, net	368,834	622,621	991,455
Paycheck Protection Program loan forgiveness	1,260,000	-	1,260,000
Endowment contributions	-	3,000	3,000
Net assets released from restrictions	188,624	(188,624)	-
Total revenues and net assets released from restrictions	20,359,827	2,520,609	22,880,436
Expenses:			
Program services:			
Production	3,852,970	-	3,852,970
Programming	2,826,313	-	2,826,313
Broadcasting	1,621,575	-	1,621,575
New Ventures	541,374	-	541,374
Marketing and communications	320,130	-	320,130
Total program services	9,162,362	-	9,162,362
Support services:			
Membership and development	2,800,570	-	2,800,570
Management and general	1,749,252	-	1,749,252
Total support services	4,549,822	-	4,549,822
Total expenses	13,712,184	-	13,712,184
Change in net assets	6,647,643	2,520,609	9,168,252
Net assets, beginning of year	8,609,282	9,783,906	18,393,188
Net assets, end of year	\$ 15,256,925	12,304,515	27,561,440

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, 2022
(with comparative totals for the year ended September 30, 2021)**

	Program Services						Support Services					
					Marketing and Communications	Total Program Services	Membership and Development	Management and General	Total Support Services	2022 Total	2021	
	Production	Programming	Broadcasting	New Ventures								
Salaries	\$ 934,658	451,651	712,862	221,696	233,617	2,554,484	978,006	1,006,153	1,984,159	4,538,643	4,199,300	
Production costs	2,223,344	-	-	217,968	-	2,441,312	-	-	-	2,441,312	1,854,917	
Dues and subscriptions	12,673	1,869,314	773	-	76	1,882,836	20,393	34,394	54,787	1,937,623	2,200,145	
Benefits	210,462	97,746	163,731	29,197	42,734	543,870	197,421	164,886	362,307	906,177	913,065	
Contract services	9,300	600	49,023	72,164	21,092	152,179	589,628	49,371	638,999	791,178	321,563	
Professional services	25,081	-	(4,575)	82,502	-	103,008	59,861	607,738	667,599	770,607	304,038	
Direct mail and digital	521	-	-	-	-	521	499,112	801	499,913	500,434	433,573	
Occupancy	-	-	221,087	11,040	-	232,127	-	242,040	242,040	474,167	312,312	
Events	9,800	13,184	-	-	-	22,984	381,615	16	381,631	404,615	559,229	
Maintenance and support	779	31	197,812	-	-	198,622	112,980	12,940	125,920	324,542	271,453	
Bank fees and service charges	69	-	-	2,271	-	2,340	280,547	7,602	288,149	290,489	300,194	
Supplies	21,815	86,085	79,908	1,761	-	189,569	31,670	2,706	34,376	223,945	146,395	
Meetings and travel	8,474	12,749	3,239	1,371	2,006	27,839	82,190	33,802	115,992	143,831	20,755	
Insurance	-	-	-	19,708	-	19,708	-	76,212	76,212	95,920	85,247	
Postage and shipping	6	165	2,921	2,857	-	5,949	84,024	1,328	85,352	91,301	66,797	
Internet and telephone	5,650	317	74,293	-	-	80,260	2,102	1,000	3,102	83,362	74,189	
Advertising and promotions	-	826	-	462	38,752	40,040	-	5,120	5,120	45,160	17,718	
Printing, graphics, and photography	912	8,072	-	-	4,014	12,998	20,624	-	20,624	33,622	9,998	
Equipment rental	432	-	-	-	-	432	3,657	26,909	30,566	30,998	27,081	
Web	160	-	1,207	6,594	14,577	22,538	-	-	-	22,538	22,858	
Training	84	384	1,053	-	-	1,521	-	3,140	3,140	4,661	8,535	
Disaster recovery	-	-	-	-	-	-	-	-	-	-	164,437	
Other	1,446	13	12,167	76,232	332	90,190	145,886	64,368	210,254	300,444	143,094	
Subtotal	3,465,666	2,541,137	1,515,501	745,823	357,200	8,625,327	3,489,716	2,340,526	5,830,242	14,455,569	12,456,893	
Depreciation and amortization of property and equipment	51,374	12,842	51,374	-	-	115,590	6,422	6,422	12,844	128,434	354,094	
Loss on disposition of property and equipment	3,107	-	20,169	-	-	23,276	-	-	-	23,276	5,038	
In-kind support and contributed services	873,321	-	20,400	-	88,580	982,301	22,454	56,064	78,518	1,060,819	896,159	
Total expenses	\$ 4,393,468	2,553,979	1,607,444	745,823	445,780	9,746,494	3,518,592	2,403,012	5,921,604	15,668,098	13,712,184	

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, 2021**

	Program Services					Support Services				
	Production	Programming	Broadcasting	New Ventures	Marketing and Communications	Total Program Services	Membership and Development	Management and General	Total Support Services	Total
Salaries	\$ 921,797	464,513	725,983	167,842	208,436	2,488,571	880,641	830,088	1,710,729	4,199,300
Production costs	1,687,419	-	-	167,498	-	1,854,917	-	-	-	1,854,917
Dues and subscriptions	10,000	2,137,544	731	90	64	2,148,429	21,007	30,709	51,716	2,200,145
Benefits	217,101	100,768	177,135	24,127	48,287	567,418	184,183	161,464	345,647	913,065
Contract services	4,053	2,078	71,994	23,573	7,622	109,320	15,375	196,868	212,243	321,563
Professional services	26,022	-	-	46,035	-	72,057	30,712	201,269	231,981	304,038
Direct mail and digital	-	-	-	-	-	-	433,573	-	433,573	433,573
Occupancy	-	-	224,728	-	-	224,728	-	87,584	87,584	312,312
Events	65	3,832	-	-	3,759	7,656	521,015	30,558	551,573	559,229
Maintenance and support	1,335	14,361	136,131	-	110	151,937	110,240	9,276	119,516	271,453
Bank fees and service charges	-	-	148	-	-	148	278,314	21,732	300,046	300,194
Supplies	736	57,188	55,751	923	-	114,598	28,238	3,559	31,797	146,395
Meetings and travel	3,924	1,675	913	1,991	70	8,573	1,562	10,620	12,182	20,755
Insurance	-	-	-	19,323	-	19,323	-	65,924	65,924	85,247
Postage and shipping	195	297	1,217	11,573	66	13,348	52,138	1,311	53,449	66,797
Internet and telephone	1,840	1,556	67,558	-	-	70,954	2,058	1,177	3,235	74,189
Advertising and promotions	4,827	6,789	-	1,057	3,458	16,131	-	1,587	1,587	17,718
Printing, graphics, and photography	-	-	-	-	6,171	6,171	3,827	-	3,827	9,998
Equipment rental	-	-	-	-	-	-	-	27,081	27,081	27,081
Web	160	30	2,099	9,262	11,132	22,683	175	-	175	22,858
Training	-	24	2,331	-	-	2,355	2,500	3,680	6,180	8,535
Disaster recovery	-	-	-	-	-	-	164,437	-	164,437	164,437
Other	1,465	250	13,218	68,080	-	83,013	52,445	7,636	60,081	143,094
Subtotal	2,880,939	2,790,905	1,479,937	541,374	289,175	7,982,330	2,782,440	1,692,123	4,474,563	12,456,893
Depreciation and amortization of property and equipment	141,638	35,408	141,638	-	-	318,684	17,705	17,705	35,410	354,094
Loss on disposition of property and equipment	-	-	-	-	-	-	-	5,038	5,038	5,038
In-kind support and contributed services	830,393	-	-	-	30,955	861,348	425	34,386	34,811	896,159
Total expenses	<u>\$ 3,852,970</u>	<u>2,826,313</u>	<u>1,621,575</u>	<u>541,374</u>	<u>320,130</u>	<u>9,162,362</u>	<u>2,800,570</u>	<u>1,749,252</u>	<u>4,549,822</u>	<u>13,712,184</u>

See notes to consolidated financial statements.

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

**Consolidated Statements of Cash Flow
Years Ended September 30, 2022 and 2021**

	2022	2021
Cash Flows From Operating Activities:		
Change in net assets	\$ 1,547,281	\$ 9,168,252
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized and unrealized losses (gains) on investments	1,245,339	(947,813)
Change in discount on long-term capital contributions receivable	35,077	(4,747)
Paycheck Protection Program loans forgiveness	-	(1,260,000)
Non-cash rent expense	218,040	-
Amortization of program rights	1,715,536	1,619,426
Depreciation and amortization of property and equipment	128,434	354,094
Loss on disposition of property and equipment	23,276	5,038
Contributions restricted for building construction	(187,251)	(2,930,066)
Contributions restricted for endowment funds	-	(3,000)
Changes in operating assets and liabilities that provided (used) cash:		
Accounts receivable	457,343	(1,145,536)
Capital campaign contributions receivable	961,875	851,200
Prepaid expenses	(99,701)	70,994
Accounts payable	(1,238,375)	86,015
Accrued liabilities	(878,656)	916,867
Deferred revenue	250,135	(57,889)
Net cash provided by operating activities	4,178,353	6,722,835
Cash Flows From Investing Activities:		
Purchases of investments	(1,365,067)	(1,198,078)
Proceeds from sales and maturities of investments	1,331,082	1,152,591
Purchases of program rights	(201,470)	(1,887,704)
Purchases of property and equipment	(2,798,221)	(4,679,713)
Net cash used in investing activities	(3,033,676)	(6,612,904)
Cash Flows From Financing Activities:		
Contributions restricted for building construction	187,251	2,930,066
Contributions restricted for endowment funds	-	3,000
Proceeds from Paycheck Protection Program loans	-	40,000
Net cash provided by financing activities	187,251	2,973,066
Net change in cash, cash equivalents, and restricted cash	1,331,928	3,082,997
Cash, cash equivalents, and restricted cash, beginning of year	10,940,602	7,857,605
Cash, cash equivalents, and restricted cash, end of year	<u>\$ 12,272,530</u>	<u>\$ 10,940,602</u>

See notes to consolidated financial statements.

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

Notes to Consolidated Financial Statements Years Ended September 30, 2022 and 2021

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 (“PBS”).

KLRU has a wholly-owned for-profit corporate subsidiary, Austin PBS 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 has 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 (“FASB”) 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.

Net Asset Classifications - Net assets, revenues, gains, losses, 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 investments and other 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 or at the discretion of the Board of Directors (the "Board") 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 statements 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 when the Organization has an unconditional right to payment under the terms of the customer's contract. Receivable balances are considered past due based on how recently payments have been received, and delinquent invoices do not accrue interest. The Organization continually monitors the credit worthiness of each account holder and recognizes allowances for estimated bad debt on accounts that are no longer estimated to be collectible. The Organization adjusts any allowance for subsequent collections or upon final determination that a balance is no longer collectible. As of September 30, 2022 and 2021, the Organization had recorded no allowance for uncollectible accounts receivable 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. 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. 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 \$988,197 and \$454,274 during the years ending September 30, 2023, and 2024, 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 three to ten 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 (five to ten years). Construction in process are not depreciated.

Impairment of Long-Lived Assets - Long-lived assets are reviewed for impairment at the asset group level 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 group exceeds fair value, if the carrying amount of the asset group is not recoverable.

Revenue Recognition - Revenue is recognized when promised goods or services are transferred to customers in an amount that reflects the consideration to which the Organization expects to be entitled in exchange for those goods or services by following a five-step process, (1) identify the contract with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price, and (5) recognize revenue when or as the Organization satisfies a performance obligation. All of the Organization's significant exchange-type revenue contracts are deemed to have one performance obligation to the customer.

Costs to Obtain or Fulfill Contracts - As performance obligations in contracts with customers are satisfied over a period of less than one year, the Organization applies the practical expedient to expense costs to obtain a contract as incurred. The Organization does not incur significant fulfillment costs requiring capitalization.

License Fees and Royalties - License fees are generated from the licensing of ACL branding at events or locations, such as the annual ACL music festival. License fees revenue is recognized based on contract terms with licensees, over the period of the contracts. The Organization receives usage-based royalty fees from merchants who sell merchandise which use ACL audio, video, or branding. Royalty revenue is recorded at the point in time when it is earned, based on the sales of such products by the merchants to consumers. When the amount of royalty revenue cannot be reasonably determined before it is received in cash from merchants, revenue is recognized when funds are received.

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 expended in accordance with the applicable grant award.

Production Underwriting Revenue and Related Costs - ACL production underwriting revenue is recognized at the point in time when the ACL broadcast occurs. Under the completed-contract method, revenue is recognized only when a production is completed or substantially completed. During the production period, funding received and related costs are accumulated on the consolidated statement of financial position as deferred revenues and prepaid expenses.

All revenue and expense related to ACL productions are recognized in the period in which all of the following conditions are met: a) the programming is available for airing, b) the programming has been accepted by all funding or other third parties that possess contractual rights to review the material prior to airing, and c) no conflicting license agreements prevent the programming from being aired immediately. 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. The related 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. All other local production underwriting revenue (other than ACL) and related costs are recognized as expenses are incurred, under the percentage-of-completion method.

In-kind Support and Contributed Services - Donated services are recognized by the Organization if the services received (a) create or enhance non-financial assets and (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Donated services, materials, and facilities are recorded at fair value on the date of donation, and are included in revenue and expenses when used. 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.

Special Events - Special events revenues are comprised of ticket sales and event sponsorships, recognized at the point in time 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.

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. When donor restrictions expire, that is, when a stipulated time restriction ends or purpose restriction is accomplished, the related amounts are reclassified to net assets without donor restrictions. This is reported in the consolidated statements of activities as net assets released from restrictions. Conditional promises to give, defined as those with a measurable performance or other barrier and a right of return, are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

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, 2022 and 2021. 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)(1) 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, 2022 and 2021.

Change in Accounting Principle for Recently Adopted Accounting Pronouncement - In September 2020, the FASB issued Accounting Standards Update ("ASU") 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, to improve transparency of contributed nonfinancial assets for nonprofit entities through enhancements to presentation and disclosure. The update requires that contributed nonfinancial assets are presented separately in the consolidated statements of activities. New disclosures are also required to disaggregate contributed nonfinancial assets by category type and other qualitative information about utilization, policies, and valuation techniques. The update is applied retrospectively and is effective for years beginning after June 15, 2021. The Organization adopted ASU 2020-07 effective October 1, 2021. There was no material impact to the financial statements as a result of the adoption.

Recently Issued Accounting Pronouncement - In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires the recognition of lease assets and 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, 2021 and early adoption is permitted. The Organization is currently evaluating the impact the standard will have on its financial statements.

3. Concentration of Credit Risk

Financial instruments which potentially subject the Organization to credit risk consist of cash and cash equivalents, restricted cash, 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, 2022 and 2021, two sponsors accounted for 51% and 79% of accounts receivable, respectively. As of September 30, 2022 and 2021, two donors accounted for 39% and one donor accounted for 14% of capital campaign contributions receivable, respectively. During the years ended September 30, 2022 and 2021 three donors comprised 66% and two donors accounted for 26% of capital campaign revenue, respectively.

4. Liquidity and Availability of Financial Assets

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

	2022	2021
Cash and cash equivalents	\$ 10,123,538	\$ 7,879,131
Investments	5,031,744	6,243,098
Accounts receivable	892,090	1,349,433
	16,047,372	15,471,662
Less amounts unavailable for general expenditure within one year:		
Donor-restricted endowment funds	(2,931,318)	(3,626,540)
Total amounts available for general expenditure within one year	<u>\$ 13,113,869</u>	<u>\$ 11,845,122</u>

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 \$3,500,000 line of credit from a financial institution maturing in October 2026 (Note 8) for equipment purchases.

5. Investments

Investments reported at fair value as of September 30, 2022 were as follows:

	Fair Value	Fair Value Measurements Using:		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Corporate equities	\$ 2,848,109	2,848,109	-	-
Corporate bonds	1,005,591	-	1,005,591	-
Mutual funds	570,615	570,615	-	-
Cash equivalents	515,613	515,613	-	-
Real estate investment trust	66,772	66,772	-	-
Municipal bonds	25,004	-	25,004	-
Mortgage pools - FHLMC	40	-	40	-
Total investments	<u>\$ 5,031,744</u>	<u>4,001,109</u>	<u>1,030,635</u>	<u>-</u>

Investments reported at fair value as of September 30, 2021 were as follows:

		Fair Value Measurements Using:		
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Corporate equities	\$ 3,905,599	3,905,599	-	-
Corporate bonds	995,711	-	995,711	-
Mutual funds	802,531	802,531	-	-
Cash equivalents	406,208	406,208	-	-
Real estate investment trust	82,542	82,542	-	-
Municipal bonds	50,324	-	50,324	-
Mortgage pools - FHLMC	183	-	183	-
Total investments	<u>\$ 6,243,098</u>	<u>5,196,880</u>	<u>1,046,218</u>	<u>-</u>

Corporate equities, certificates of deposit, exchange traded funds, mutual 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, and mortgage pools are classified as Level 2 as values are obtained from readily-available sources for comparable instruments.

6. Capital Campaign Contributions Receivable

Capital campaign contributions receivable were comprised of the following as of September 30:

	2022	2021
Amounts due in:		
Less than one year	\$ 686,508	\$ 1,204,203
One to five years	462,555	976,889
	1,149,063	2,181,092
Less discount to net present value	(23,134)	(58,211)
Total, net	<u>\$ 1,125,929</u>	<u>\$ 2,122,881</u>

The present value of estimated future cash flows was calculated using a discount rate of 3.75% as of September 30, 2022 and 2021.

7. Property and Equipment

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

	2022	2021
Studio broadcast equipment	\$ 6,568,656	\$ 9,400,373
Transmitter / antenna	1,799,348	1,884,199
Office and transportation equipment	892,051	1,059,226
Leasehold improvements	626,580	626,580
	9,886,635	12,970,378
Less accumulated depreciation and amortization	(9,668,493)	(12,641,464)
Construction in process	9,268,389	6,511,106
Total, net	\$ 9,486,531	\$ 6,840,020

8. Borrowing Arrangements

Line of Credit

KLRU had available a \$750,000 revolving line of credit with a financial institution which expired in March 2021. No balance was outstanding as of September 30, 2021.

In April 2021, KLRU obtained a new \$3,500,000 line of credit with a financial institution, required to be used for equipment purchases, which expires in October 2026. This line of credit bears interest at 3.75% and is collateralized by substantially all assets of KLRU. No balance was outstanding as of September 30, 2022 and 2021.

Paycheck Protection Program Loans

In April 2020, KLRU received a \$1,197,500 loan and KNV received a \$22,500 loan under the Paycheck Protection Program (“PPP”) which was created through the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) and is administered by the U.S. Small Business Administration (“SBA”). The loans had a fixed interest rate of 1% and matured in 2 years. In February 2021, KNV received a second PPP loan in the amount of \$40,000 with a fixed interest rate of 1% and maturity in 5 years. All of the PPP loans were eligible for forgiveness by the SBA for the portion of loan proceeds used for payroll costs and other designated operating expenses (as defined) for up to eight weeks or, at the discretion of the borrower, twenty-four weeks (the “Covered Period”), provided at least 60% of loans proceeds were used for payroll costs and KLRU/KNV met all necessary criteria as defined by the SBA. Payments were deferred until the earlier of (i) the date the SBA remit to the lender the amount of forgiveness granted to KLRU/KNV, or (ii) ten months after the last day of the Covered Period if the KLRU/KNV did not apply for loan forgiveness. KLRU and KNV received forgiveness from the SBA for all three PPP loans during the year ended September 30, 2021, at which point the amounts were recorded as income.

9. Net Assets With Donor Restrictions

During the year ended September 30, 2020, 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:

	2022	2021
Permanent restrictions-		
Donor-restricted endowment funds (Note 10)	\$ 1,201,814	\$ 1,204,814
Temporary restrictions:		
Capital campaign	8,865,226	8,677,975
Unappropriated earnings from permanently restricted donor endowments (Note 10)	1,729,504	2,421,726
Educational media center	376,749	-
Total	<u>\$ 12,173,293</u>	<u>\$ 12,304,515</u>

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.

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. There were no deficiencies for donor-restricted endowment funds as of September 30, 2022 and 2021.

Changes in Endowment Fund net assets were as follows during the year ended September 30, 2022:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 2,616,558	\$ 3,626,540	\$ 6,243,098
Investment income	28,814	39,791	68,605
Management fees	(13,281)	(21,340)	(34,621)
Net realized and unrealized gains	(531,666)	(713,673)	(1,245,339)
Endowment net assets, end of year	<u>\$ 2,100,425</u>	<u>\$ 2,931,318</u>	<u>\$ 5,031,743</u>

Changes in Endowment Fund net assets were as follows during the year ended September 30, 2021:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 2,060,255	\$ 3,189,543	\$ 5,249,798
Contributions	-	3,000	3,000
Investment income	28,422	44,455	72,877
Management fees	(11,852)	(18,538)	(30,390)
Net realized and unrealized gains	369,647	578,166	947,813
Appropriations for expenditure	170,086	(170,086)	-
Endowment net assets, end of year	<u>\$ 2,616,558</u>	<u>\$ 3,626,540</u>	<u>\$ 6,243,098</u>

11. Community Service Grants

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”). 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:

	2022	2021
Venue and parking	\$ 818,400	\$ 758,400
Advertising and marketing services	130,880	91,380
Production and programming services and use of technical equipment	77,938	25,759
Legal services	18,110	20,620
Operating expenses	15,491	-
Equipment	-	17,599
Total	<u>\$ 1,060,819</u>	<u>\$ 913,758</u>

All donated services and assets were utilized by the Organization’s programs and supporting services. There were no donor-imposed restrictions associated with the donated services and assets.

The Organization receives contributed office and venue space, parking, advertising, production, and legal services that are reported using current rates for similar services.

Other contributed assets and services such as food, beverage, rental fees, and other goods are used to defray costs of operating expense. These items are recognized at estimated fair value using rates or pricing for similar products or services.

13. Commitments and Contingencies

Lease Commitments

The Organization leases its studio and office space 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 2052. Future minimum operating lease payments were as follows as of September 30, 2022:

2023	\$ 147,768
2024	141,349
2025	166,809
2026	163,296
2027	283,048
Thereafter	<u>18,877,904</u>
Total minimum lease payments	<u>\$ 19,780,174</u>

Rent expense on all operating leases totaled \$413,773 and \$249,687 during the years ended September 30, 2022 and 2021, respectively.

The Organization will also provide certain academic benefits, under a lease agreement with an academic institution for a production and broadcast studio and office space. 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.

Contingencies

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID 19) as a pandemic, which continues to spread throughout the world. While the disruption is expected to be temporary, there is uncertainty around the severity and duration. Therefore, while this issue is not expected to negatively impact the Organization's business, results of operations, and financial position, the related financial impact cannot be reasonably estimated at this time. The Organization is actively managing the business to maintain cash flow, and management believes that the Organization has adequate liquidity.

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 \$237,776 and \$259,138 during the years ended September 30, 2022 and 2021, respectively.

15. Related Party Transactions

Contributions from certain members of the Board totaled \$804,470 and \$1,275,412 during the years ended September 30, 2022 and 2021, respectively. Outstanding receivables from the Board totaled \$103,555 and \$430,833 as of September 30, 2022 and 2021, respectively.

16. Subsequent Events

The Organization has evaluated subsequent events through March 6, 2023 (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.