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

Consolidated Financial Statements as of and for the Year Ended September 30, 2023 and Independent Auditors' Report

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Independent Auditors' Report

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

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 statement of financial position as of September 30, 2023, and the related consolidated statements of activities, functional expenses, and cash flows for the year 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, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, the Organization changed its method of accounting for leasing transactions due to the adoption of Accounting Standards Update No. 2016-02, *Leases (Topic 842)* on October 1, 2022. Our opinion is not modified with respect to that matter.

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.

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.

Maxwell Locke + Ritter LLP

Austin, Texas
February 22, 2024

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

Consolidated Statement of Financial Position
September 30, 2023

Assets	
Cash and cash equivalents	$ 12,102,561
Investments	5,604,874
Accounts receivable	565,666
Capital campaign contributions receivable, net	720,960
Prepaid expenses	2,319,232
Program rights	1,427,142
Cash restricted to investment in building construction	1,781,490
Property and equipment, net	9,197,419
Finance lease right-of-use assets	57,057
Operating lease right-of-use assets	8,179,866
Total assets	$ 41,956,267
Liabilities and Net Assets	
Liabilities:	
Accounts payable	$ 1,396,084
Accrued liabilities	678,042
Deferred revenue	1,136,943
Finance lease obligations	58,080
Operating lease obligations	8,893,273
Total liabilities	12,162,422
Net assets:	
Without donor restrictions:	
Undesignated	14,822,480
Management-designated reserve	246,506
Management-designated endowment reserve	2,341,140
Total net assets without donor restrictions	17,410,126
With donor restrictions	12,383,719
Total net assets	29,793,845
Total liabilities and net assets	$ 41,956,267

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, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and net assets released from restrictions:			
Memberships	$ 10,545,241	-	10,545,241
License fees, royalties, and other	2,772,747	-	2,772,747
Community service grant	1,939,379	-	1,939,379
Production underwriting	1,318,825	-	1,318,825
In-kind support and contributed services	1,015,734	-	1,015,734
Special events	909,275	-	909,275
Program underwriting	549,317	-	549,317
Educational services	228,274	-	228,274
Capital contributions	-	254,760	254,760
Investment return, net	429,600	332,415	762,015
Net assets released from restrictions	376,749	(376,749)	-
Total revenues and net assets released from restrictions	20,085,141	210,426	20,295,567
Expenses:			
Program services:			
Production	5,585,744	-	5,585,744
Programming	3,205,331	-	3,205,331
Broadcasting	1,988,472	-	1,988,472
Marketing and communications	1,137,599	-	1,137,599
New Ventures	553,500	-	553,500
Total program services	12,470,646	-	12,470,646
Support services:			
Management and general	3,728,642	-	3,728,642
Membership and development	3,411,155	-	3,411,155
Total support services	7,139,797	-	7,139,797
Total expenses	19,610,443	-	19,610,443
Change in net assets	474,698	210,426	685,124
Net assets, beginning of year	16,935,428	12,173,293	29,108,721
Net assets, end of year	$ 17,410,126	12,383,719	29,793,845

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, 2023

	Program Services						Support Services			
	Production	Programming	Broadcasting	Marketing and Communications	New Ventures	Total Program Services	Management and General	Membership and Development	Total Support Services	Total
Salaries	$ 915,850	586,752	665,495	440,242	112,705	2,721,044	1,225,140	1,039,209	2,264,349	4,985,393
Production costs	2,421,875	1,206	24,497	78,610	56,440	2,582,628	46,860	483,558	530,418	3,113,046
Dues and subscriptions	12,910	1,924,441	763	2,007	-	1,940,121	47,152	4,577	51,729	1,991,850
Occupancy	-	-	233,440	-	10,120	243,560	671,821	-	671,821	915,381
Benefits	321,843	147,884	173,161	93,017	14,247	750,152	328,714	282,250	610,964	1,361,116
Professional services	41,899	-	-	194,566	74,401	310,866	552,203	6,100	558,303	869,169
Contract services	250,121	89,812	3,685	10,850	180,367	534,835	4	184,211	184,215	719,050
Maintenance and support	40,480	1,535	221,971	10	-	263,996	39,224	120,379	159,603	423,599
Supplies	13,372	106,830	240,380	3,786	1,037	365,405	18,721	29,303	48,024	413,429
Bank fees and service charges	8,356	-	-	-	2,124	10,480	9,485	299,880	309,365	319,845
Meetings and travel	22,443	27,381	6,294	11,022	-	67,140	60,888	157,627	218,515	285,655
Events	1,703	30,416	-	-	-	32,119	795	226,944	227,739	259,858
Internet and telephone	4,800	180	97,657	550	-	103,187	67,500	2,500	70,000	173,187
Insurance	-	-	-	-	21,239	21,239	88,110	-	88,110	109,349
Fundraising - membership	-	-	-	-	-	-	32,316	73,139	105,455	105,455
Postage and shipping	449	3,803	812	113	125	5,302	4,054	58,411	62,465	67,767
Printing, graphics, and photography	101	2,111	-	3,898	-	6,110	2,017	16,459	18,476	24,586
Equipment rental	-	-	-	-	-	-	16,484	47	16,531	16,531
Training	91	1,962	170	-	-	2,223	4,187	3,885	8,072	10,295
Web	-	-	-	-	5,700	5,700	-	-	-	5,700
Interest	-	-	-	-	-	-	1,158	-	1,158	1,158
Advertising and promotions	-	-	-	-	929	929	-	-	-	929
Other	8,835	56	17,572	16	74,066	100,545	41,258	4,942	46,200	146,745
Subtotal	4,065,128	2,924,369	1,685,897	838,687	553,500	10,067,581	3,258,091	2,993,421	6,251,512	16,319,093
Impairment of property and equipment	430,936	215,468	232,042	182,319	-	1,060,765	348,063	248,617	596,680	1,657,445
In-kind support and contributed services	844,323	-	-	61,175	-	905,498	16,689	93,547	110,236	1,015,734
403b liability	194,149	39,890	42,959	33,753	-	310,751	64,438	46,027	110,465	421,216
Depreciation and amortization of property and equipment	51,208	25,604	27,574	21,665	-	126,051	41,361	29,543	70,904	196,955
Total expenses	$ 5,585,744	3,205,331	1,988,472	1,137,599	553,500	12,470,646	3,728,642	3,411,155	7,139,797	19,610,443

See notes to consolidated financial statements.

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

Consolidated Statement of Cash Flows
Year Ended September 30, 2023

Cash Flows From Operating Activities:	
Change in net assets	$ 685,124
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Net realized and unrealized gains on investments	(518,570)
Amortization of program rights	1,767,980
Depreciation and amortization of property and equipment	196,955
Amortization of finance lease right-of-use assets	16,868
Non-cash lease expense	658,897
Contributions restricted for building construction	(254,760)
Changes in operating assets and liabilities that provided (used) cash:	
Accounts receivable	326,424
Capital campaign contributions receivable	404,969
Prepaid expenses	(593,522)
Accounts payable	170,875
Accrued liabilities	447,068
Deferred revenue	(220,648)
Net cash provided by operating activities	3,087,660
Cash Flows From Investing Activities:	
Purchases of investments	(2,103,732)
Proceeds from sales and maturities of investments	2,049,172
Purchases of program rights	(1,752,651)
Purchases of property and equipment	92,157
Net cash used in investing activities	(1,715,054)
Cash Flows From Financing Activities:	
Payments on finance lease obligations	(15,845)
Contributions restricted for building construction	254,760
Net cash provided by financing activities	238,915
Net change in cash, cash equivalents, and restricted cash	1,611,521
Cash, cash equivalents, and restricted cash, beginning of year	12,272,530
Cash, cash equivalents, and restricted cash, end of year	$ 13,884,051
Supplemental Non-Cash Disclosures:	
Operating lease obligations resulting from the addition of right-of-use assets	$ 8,460,422
Finance lease obligations resulting from the addition of right-of-use assets	$ 73,925

See notes to consolidated financial statements.

1. Nature of Operations

Capital of Texas Public Telecommunications Council (dba Austin PBS and/or KLRU) ("KLRU") is a nonprofit corporation providing public and educational broadcast services through its licensed station, KLRU (Channel 18) as well as other digital and cable broadcast channels, online video content, and direct community services. This station is the public television station which broadcasts high-quality programs to viewers in Austin, Texas and other surrounding areas of Central Texas. KLRU is a member of the Public Broadcasting Service ("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. 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 11).
>
> 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 statement of financial position. Investment transactions are recorded on the trade date and investment income is recorded in the consolidated statement of activities when earned. Realized gains and losses are recorded as the difference between historical cost and the proceeds earned from the sale of an investment. Unrealized gains and losses are recorded for the change in fair value of investments between reporting periods. This activity is reported as investment return in the consolidated statement 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, 2023, 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 statement of activities, is expected to be $1,014,050 and $413,878 during the years ending September 30, 2024 and 2025, 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.

Change in Accounting Principle for Recently Adopted Accounting Pronouncement - In February 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-02, *Leases (Topic 842),* which supersedes existing guidance for leases under Topic 840, *Leases*. The standard requires the recognition of right-of-use ("ROU") assets and lease liabilities for all leases, including operating leases. The Organization adopted ASU No. 2016-02, as amended ("Topic 842"), on October 1, 2022, using a modified retrospective approach. The Organization elected the package of practical expedients at the time of adoption which allowed entities to: (1) not reassess whether any expired or existing contracts were or contained leases; (2) retain the existing classification of lease contracts as of the date of adoption; and (3) not reassess initial direct costs for any existing leases. The Organization also elected to use hindsight with respect to lease renewals and purchase options when determining the lease term and in assessing potential impairment of ROU assets. Adoption of the standard required the Organization to restate amounts as of October 1, 2022, resulting in an increase in ROU assets and operating lease obligations of $8,460,422. The accounting for finance leases remained substantially unchanged. The adoption did not have a significant impact on the Organization's consolidated statement of activities.

Leases - The Organization leases its studio, office space, and equipment consisting of a broadcasting tower, transmitter space, and other office equipment under long-term lease agreements. Management assesses contracts at inception to determine whether an arrangement is or includes a lease, which conveys the Organization's right to control the use of an identified asset for a period of time in exchange for consideration. A determination is made at inception as to whether the lease is an operating lease or a finance lease, and lease determinations are reassessed in the event of a change in lease terms. ROU assets and the associated liabilities are recognized at the commencement date and initially measured based on the present value of future minimum lease payments over the expected lease term, with ROU assets increased for initial direct costs and prepaid lease payments and reduced by any lease incentives received from the lessor.

The Organization calculates the discount rate based on the rate implicit in the lease, or if the implicit rate is not readily determinable, the Organization calculates an incremental borrowing rate using a portfolio approach. Leases with an initial term of twelve months or less are classified as short term leases and are not recognized in the consolidated statement of financial position unless the lease contains a purchase option that is reasonably certain to be exercised. Lease payments for short-term leases are recognized on a straight-line basis over the lease term.

Lease agreements may include periodic adjustments to payment amounts for inflation or other variables, or may require payments for taxes, insurance, maintenance or other expenses, which are generally referred to as non-lease components. The Organization elects the practical expedient to account for non-lease components together with the related lease components for all classes of leased assets. Certain lease agreements may include renewal options to extend the lease term or terminate the lease prior to its scheduled expiration date in exchange for an agreed-upon fee. Management assesses these options using a threshold of reasonably certain, which is a high threshold; therefore, the Organization's lease agreements do not generally include renewal periods or termination options. Lease term, discount rate, variable lease costs and future minimum lease payment determinations require the use of judgment and are based on the facts and circumstances of each lease. Economic incentives, intent, past history and business need are among the factors considered to determine if renewal and/or purchase options are reasonably certain to be exercised. The Organization's lease agreements do not contain residual value guarantees, restrictions, or covenants.

Operating lease expense is recorded within occupancy expense over the term of the lease on a straight-line basis. Fixed costs for operating leases are composed of initial base rent amounts plus any fixed annual increases. Variable costs for operating leases consist primarily of common area maintenance under the office lease. Finance ROU assets are amortized using the straight-line method over the shorter of the lease term or the estimated useful lives of the related assets and included with depreciation and amortization on the consolidated statement of functional expenses.

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. Management recorded impairment charges in connection with damages caused by a winter storm (Note 7).

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 statement 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.

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 - The Organization does not incur significant costs to obtain or fulfill contracts 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.

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.

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 year ended September 30, 2023. KLRU files form 990 tax returns in the U.S. federal jurisdiction and is subject to routine examinations of its returns; however, there are no examinations currently in progress. The Internal Revenue Service has also recognized KLRU as a public charity under Section 509(a)(l) of the IRC.

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

KNV may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained upon examination by the relevant taxing authority based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. Management evaluated KNV's tax positions for all open tax years and believes KNV had no material uncertain tax positions and has recorded no related interest or penalties during the year ended September 30, 2023.

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, 2023, one sponsor accounted for 17% of accounts receivable. As of September 30, 2023, four donors accounted for 67% of capital campaign contributions receivable. During the year ended September 30, 2023, four donors comprised 82% of capital campaign revenue.

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, 2023:

Cash and cash equivalents	$ 12,102,561
Investments	5,604,874
Accounts receivable	565,666
	18,273,101
Less amounts unavailable for general expenditure within one year-	
Donor-restricted endowment funds	(3,263,733)
Total amounts available for general expenditure within one year	$ 15,009,368

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.

5. Investments

Investments reported at fair value as of September 30, 2023 were as follows:

		Fair Value Measurements Using:		
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Corporate equities	$ 3,142,331	3,142,331	-	-
Corporate bonds	1,094,348	-	1,094,348	-
Mutual funds	710,390	710,390	-	-
U.S. treasuries	390,250	-	390,250	-
Cash equivalents	242,938	242,938	-	-
Municipal bonds	24,617	-	24,617	-
Total investments	$ 5,604,874	4,095,659	1,509,215	-

Corporate equities and mutual funds 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 bonds, U.S. treasuries, and municipal bonds 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, 2023:

Amounts due in:	
Less than one year	$ 416,360
One to five years	316,853
	733,213
Less discount to net present value	(12,253)
Total, net	$ 720,960

The present value of estimated future cash flows was calculated using a discount rate of 3.75% as of September 30, 2023.

7. Property and Equipment

Property and equipment consisted of the following as of September 30, 2023:

Studio broadcast equipment	$ 6,760,208
Transmitter / antenna	2,258,593
Office and transportation equipment	1,360,488
Leasehold improvements	626,580
	11,005,869
Less accumulated depreciation and amortization	(9,736,017)
Construction in process	7,927,567
Total, net	$ 9,197,419

During the year ended September 30, 2023, the Organization evaluated equipment in construction in process which was affected by a winter storm. In connection with this evaluation, the Organization recorded impairment expense of $1,657,445 during the year ended September 30, 2023 within management and general expenses in the consolidated statement of activities.

8. Borrowing Arrangements

In April 2021, KLRU obtained a $3,500,000 line of credit with a financial institution, required to be used for equipment purchases, with a maturity date of October 2026. This line of credit bears interest at 3.75% and is collateralized by substantially all assets of KLRU. In June 2023, KLRU closed the line of credit.

9. Leases

The following is a summary of the Organization's lease expense for the year ended September 30, 2023:

Finance lease expense:	
Amortization of ROU assets	$ 16,868
Interest on lease obligations	1,605
Operating lease expense	658,897
Variable lease expense	227,891
Total	$ 905,261

Future minimum lease payments due under long-term lease agreements, excluding payments for common area maintenance, were as follows as of September 30, 2023:

	Financing Leases	Operating Leases
2024	$ 26,149	$ 95,256
2025	25,710	163,296
2026	8,700	163,296
2027	-	193,234
2028	-	527,776
Thereafter	-	18,623,659
Total minimum lease payments	60,559	19,766,517
Less amounts representing interest	(2,479)	(10,873,244)
Present value of minimum lease payments	58,080	8,893,273
Less current portion of lease obligations	(24,471)	(358,140)
Lease obligations, net of current portion	$ 33,609	$ 8,835,133

As of September 30, 2023, the operating lease had a remaining lease term of 28.92 years and a discount rate of 5.00% and finance leases had a weighted average remaining lease term of 2.33 years and a weighted average discount rate of 3.75%.

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.

10. Net Assets With Donor Restrictions

During the year ended September 30, 2020, the Organization began a capital campaign to fund the construction of the Austin Media Center (Note 7).

Net assets with donor restrictions were restricted for the following purposes as of September 30, 2023:

Permanent restrictions-	
Donor-restricted endowment funds (Note 11)	$ 1,201,814
Temporary restrictions:	
Capital campaign	9,119,986
Unappropriated earnings from permanently restricted donor endowments (Note 11)	2,061,919
Total	$ 12,383,719

11. 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, 2023.

Changes in Endowment Fund net assets were as follows during the year ended September 30, 2023:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 2,100,425	$ 2,931,318	$ 5,031,743
Investment income	34,983	48,309	83,292
Management fees	(12,067)	(16,665)	(28,732)
Net realized and unrealized gains	217,799	300,771	518,570
Endowment net assets, end of year	$ 2,341,140	$ 3,263,733	$ 5,604,873

12. 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.

13. In-kind Support and Contributed Services

The Organization received in-kind support and contributed services as follows during the year ended September 30, 2023:

Venue and parking	$ 833,400
Production and programming services and use of technical equipment	71,614
Advertising and marketing services	58,869
Legal services	38,193
Operating expenses	13,658
Total	$ 1,015,734

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 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.

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 $247,808 during the year ended September 30, 2023.

15. Related Party Transactions

Contributions from certain members of the Board totaled $386,071 during the year ended September 30, 2023. Outstanding receivables from the Board totaled $53,260 as of September 30, 2023.

16. Subsequent Events

The Organization has evaluated subsequent events through February 22, 2024 (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.