CAPITOL BROADCASTING ASSOCIATION, INC.
dba KMFA CLASSICAL 89.5 AND AFFILIATE
(A NONPROFIT CORPORATION)

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

YEARS ENDED DECEMBER 31, 2023 AND 2022

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Capitol Broadcasting Association, Inc. and Affiliate
Austin, Texas

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Capitol Broadcasting Association, Inc. dba KMFA-Classical 89.5 (a nonprofit corporation) (KMFA) and its affiliate, KMFA Permanent Endowment Fund (a nonprofit trust) (PEF) (collectively, the Company), which comprise the consolidated statements of financial position as of December 31, 2023 and 2022, 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 accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Capitol Broadcasting Association, Inc. and Affiliate as of December 31, 2023 and 2022 and the its changes in net assets and 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 (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Company 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.

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Responsibilities of Management for the Consolidated 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. Management is also responsible 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 financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the consolidated financial statements are issued.

Auditor's Responsibilities for the Audits of the Consolidated 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 auditor's 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 GAAS 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 GAAS, 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 Company'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 Company'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.

Brown, Graham & Company, P.C.

Austin, Texas
August 14, 2024

CAPITOL BROADCASTING ASSOCIATION, INC.
dba KMFA-CLASSICAL 89.5 AND AFFILIATE
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
YEARS ENDED DECEMBER 31, 2023 AND 2022

ASSETS

	2023	2022
Current assets:		
Cash and cash equivalents	$ 1,064,828	$ 1,205,041
Accounts receivable:		
Trade	83,911	78,998
Pledges, net of allowance (Note 2)	146,572	156,819
Prepaid expenses	68,068	39,276
Total current assets	1,363,379	1,480,134
Right of use asset - tower lease (Note 11)	397,571	502,803
Property and equipment, net (Note 4)	8,834,692	8,983,871
Other non-current assets:		
Debt issuance costs, net of amortization (Note 6)	2,673	-
Accounts receivable - pledges, net of current portion (Note 2)	71,066	153,880
Restricted cash equivalents - PEF (Notes 3 and 5)	21,038	33,669
Restricted investments - PEF (Notes 3 and 5)	1,502,088	1,336,255
Total other non-current assets	1,596,865	1,523,804
Total assets	$ 12,192,507	$ 12,490,612

The accompanying notes are an integral part of these consolidated financial statements.

CAPITOL BROADCASTING ASSOCIATION, INC.
dba KMFA-CLASSICAL 89.5 AND AFFILIATE
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION - CONTINUED
YEARS ENDED DECEMBER 31, 2023 AND 2022

LIABILITIES AND NET ASSETS

	2023	2022
Current liabilities:		
Accounts payable	$ 70,459	$ 55,400
Accrued liabilities	62,603	47,753
Deferred revenue	11,944	24,679
Refundable advances - grants	34,105	22,250
Current portion of operating lease liability (Note 11)	106,656	101,074
Total current liabilities	285,767	251,156
Operating lease liability, net of current portion (Note 11)	302,513	409,169
Total liabilities	588,280	660,325
Net assets:		
Without donor restrictions	9,640,736	10,079,082
With donor restrictions (Note 7):		
Purpose restrictions	409,365	340,281
Perpetual in nature	1,554,126	1,410,924
Total net assets with donor restrictions	1,963,491	1,751,205
Total net assets	11,604,227	11,830,287
Total liabilities and net assets	$ 12,192,507	$ 12,490,612

The accompanying notes are an integral part of these consolidated financial statements.

CAPITOL BROADCASTING ASSOCIATION, INC.
dba KMFA-CLASSICAL 89.5 AND AFFILIATE
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue:			
Contributions and grants	$ 1,485,035	$ 245,595	$ 1,730,630
CPB community service grants	-	171,632	171,632
Underwriting	359,601	-	359,601
On-air barter revenue	61,614	-	61,614
Special events	68,425	-	68,425
Facility rental	177,271	-	177,271
In-kind donations (Note 12):			
Vehicles	101,579	-	101,579
Equity securities	1,320	-	1,320
Net investment income (loss)	14,438	214,575	229,013
Other income	346	-	346
Net assets released from restrictions pursuant to endowment distribution policy (Note 5)	83,367	(83,367)	-
Net assets released from restrictions due to satisfaction of purposes	336,149	(336,149)	-
Total support and revenue	2,689,145	212,286	2,901,431
Expenses:			
Program services:			
Production	885,688	-	885,688
Technical	293,782	-	293,782
Events and outreach	241,033	-	241,033
Support services:			
Development	708,838	-	708,838
Marketing	404,918	-	404,918
General and administrative	593,232	-	593,232
Total expenses	3,127,491	-	3,127,491
Change in net assets	(438,346)	212,286	(226,060)
Net assets:			
Beginning of year	10,079,082	1,751,205	11,830,287
End of year	$ 9,640,736	$ 1,963,491	$ 11,604,227

The accompanying notes are an integral part of these consolidated financial statements.

CAPITOL BROADCASTING ASSOCIATION, INC.
dba KMFA-CLASSICAL 89.5 AND AFFILIATE
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue:			
Contributions and grants	$ 1,354,630	$ 55,009	$ 1,409,639
CPB community service grants	-	212,927	212,927
Underwriting	244,039	-	244,039
On-air barter revenue	42,918	-	42,918
Special events	118,266	-	118,266
Facility rental	82,563	-	82,563
In kind donations (Note 12):			
Vehicles	119,625	-	119,625
Equity securities	19,502	-	19,502
Net investment income (loss)	5,814	(202,623)	(196,809)
Other income	473	-	473
Net assets released from restrictions pursuant to endowment distribution policy (Note 5)	55,578	(55,578)	-
Net assets released from restrictions due to satisfaction of purposes	376,168	(376,168)	-
Total support and revenue	2,419,576	(366,433)	2,053,143
Expenses:			
Program services:			
Production	849,426	-	849,426
Technical	286,973	-	286,973
Events and outreach	161,210	-	161,210
Support services:			
Development	612,871	-	612,871
Marketing	279,715	-	279,715
General and administrative	587,967	-	587,967
Total expenses	2,778,162	-	2,778,162
Change in net assets	(358,586)	(366,433)	(725,019)
Net assets:			
Beginning of year	10,437,668	2,117,638	12,555,306
End of year	$ 10,079,082	$ 1,751,205	$ 11,830,287

The accompanying notes are an integral part of these consolidated financial statements.

CAPITOL BROADCASTING ASSOCIATION, INC.
dba KMFA-CLASSICAL 89.5 AND AFFILIATE
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2023

	Programs			Support Services			
	Production	Technical	Events and Outreach	Development	Marketing	General and Administrative	Total
Salaries, payroll taxes and benefits	$ 654,293	$ -	$ 180,920	$ 430,362	$ 221,214	$ 166,316	$ 1,653,106
Professional and contract labor	-	48,000	2,374	6,669	32,658	34,820	124,521
Underwriting commissions	-	-	19,441	-	58,076	-	77,517
Programming and broadcasting expenses	116,431	-	-	-	-	-	116,431
Engineering, computer and IT expenses	15,883	16,981	3,790	14,910	-	-	51,563
Marketing, promotion and advertising	6,660	-	-	-	69,428	1,502	77,590
Donor cultivation and fundraising	-	-	-	67,735	-	-	67,735
Rent (Note 11)	-	114,919	-	-	-	-	114,919
Electrical power & telecommunications	-	109,036	-	-	-	-	109,036
Postage and printing	2,072	-	-	71,604	-	5,642	79,318
Depreciation	6,628	4,519	-	-	-	290,108	301,255
Dues, fees and subscriptions	500	-	1,629	6,031	1,100	1,578	10,837
Insurance	5,935	-	-	-	-	23,583	29,518
Office	75,210	-	2,761	27,857	-	14,004	119,832
Staff training and development	1,816	-	575	3,935	2,771	2,082	11,178
Other expenses	201	288	-	42,188	19,671	51,023	113,372
Special events	-	-	29,543	37,546	-	-	67,089
Interest expense	59	40	-	-	-	2,574	2,673
Total	$ 885,688	$ 293,782	$ 241,033	$ 708,838	$ 404,918	$ 593,232	$ 3,127,491

The accompanying notes are an integral part of these consolidated financial statements.

CAPITOL BROADCASTING ASSOCIATION, INC.
dba KMFA-CLASSICAL 89.5 AND AFFILIATE
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2022

	Programs			Support Services			
	Production	Technical	Events and Outreach	Development	Marketing	General and Administrative	Total
Salaries, payroll taxes and benefits	$ 600,097	$ -	$ 133,211	$ 390,641	$ 66,726	$ 129,994	$ 1,320,669
Professional and contract labor	-	48,519	-	3,747	56,707	40,329	149,302
Underwriting commissions	-	-	8,406	-	68,605	-	77,011
Programming and broadcasting expenses	138,122	-	-	-	-	-	138,122
Engineering, computer and IT expenses	15,899	24,803	-	19,209	-	-	59,911
Marketing, promotion and advertising	13,377	-	-	-	87,653	67,046	168,076
Donor cultivation and fundraising	-	-	-	60,227	-	-	60,227
Rent (Note 11)	-	104,432	-	-	-	-	104,432
Electrical power & telecommunications	-	105,002	-	-	-	-	105,002
Postage and printing	2,636	-	-	58,295	-	6,978	67,909
Depreciation	6,138	4,185	-	-	-	268,664	278,987
Dues, fees and subscriptions	500	-	2,546	4,871	-	938	8,855
Insurance	5,408	-	-	-	-	21,713	27,121
Office	62,593	-	4,774	22,269	-	11,386	101,022
Staff training and development	4,609	-	-	2,720	-	25,774	33,103
Other expenses	-	-	-	37,701	24	13,094	50,819
Contributions	-	-	12,273	13,191	-	-	25,464
Special events	47	32	-	-	-	2,051	2,130
Total	$ 849,426	$ 286,973	$ 161,210	$ 612,871	$ 279,715	$ 587,967	$ 2,778,162

The accompanying notes are an integral part of these consolidated financial statements.

CAPITOL BROADCASTING ASSOCIATION, INC.
dba KMFA-CLASSICAL 89.5 AND AFFILIATE
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
Cash flows from operating activities:		
Changes in net assets	$ (226,060)	$ (725,019)
Adjustments to reconcile changes in net assets to net cash flows from operating activities:		
Depreciation	301,255	278,987
Amortization of debt issuance costs included in interest expense	2,672	-
Donation of investments	(1,320)	(19,502)
Net investment (gains)/losses	(229,013)	196,809
Amortization of right-to-use asset	105,232	92,310
(Increase) Decrease in:		
Accounts receivable - trade	(4,913)	(24,203)
Pledges receivable	93,061	340,794
Prepaid expenses	(28,792)	6,392
Increase (Decrease) in:		
Accounts payable	15,059	5,570
Accrued liabilities	14,850	(4,657)
Refundable advances:		
Grant	11,855	2,250
Deferred lease liability	-	(9,583)
Operating lease liability	(101,074)	(84,870)
Deferred revenue	(12,735)	1,746
Net cash flows (used in) from operating activities	(59,924)	57,024
Net cash flows from (used in) investing activities:		
Purchase of investments	(462,657)	18,306
Sales and maturities of investments	527,157	40,000
Payment of construction and retainage payable	-	(9,479)
Purchase of property and equipment	(152,076)	(243,850)
Net cash flows used in investing activities	(87,576)	(195,023)

The accompanying notes are an integral part of these consolidated financial statements.

CAPITOL BROADCASTING ASSOCIATION, INC.
dba KMFA-CLASSICAL 89.5 AND AFFILIATE
CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED
YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
Net cash flows used in financing activities		
Payment of debt issuance costs	(5,345)	-
Payments of note payable - bank	-	(300,000)
Net cash flows used in financing activities	(5,345)	(300,000)
Net decrease in cash, restricted cash and cash equivalents	(152,844)	(437,999)
Cash, restricted cash and cash equivalents:		
Beginning of year	1,238,710	1,676,709
End of year	$ 1,085,866	$ 1,238,710
Cash, restricted cash and cash equivalents:		
Cash and cash equivalents	$ 1,064,828	$ 1,205,041
Restricted cash equivalents	21,038	33,669
Total cash, restricted cash and cash equivalents	$ 1,085,866	$ 1,238,710
Supplemental disclosure of noncash operating activity:		
Right-of-use asset obtained in exchange for lease liability	$ -	$ 595,113

The accompanying notes are an integral part of these consolidated financial statements.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of activities:
Capitol Broadcasting Association, Inc. dba KMFA-Classical 89.5, a Texas nonprofit corporation (KMFA), was incorporated on October 10, 1965. The Company's main activity is the maintenance and operation of the member supported classical radio station KMFA-FM in Austin, Texas. The radio station serves Travis and surrounding counties.

Capitol Broadcasting Association, Inc. includes in its consolidated financial statements the accounts of its affiliate, KMFA Permanent Endowment Fund (a nonprofit trust) which was created for the use and benefit of KMFA (collectively, the Company). The board of trustees of the KMFA Permanent Endowment Fund is appointed by the board of trustees of Capitol Broadcasting Association, Inc. Intercompany balances and transactions have been eliminated in consolidation.

Basis of accounting and presentation:
The accompanying consolidated financial statements are presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions.

Net assets of the Company and changes therein are classified and reported as follows:

> Net assets without donor restrictions - Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Company. These net assets may be used at the discretion of the Company's management and board of directors.

> Net assets with donor restrictions - Net assets subject to stipulations imposed by donors and grantors. Some donor-imposed restrictions are temporary in nature; these restrictions will be met by the actions of the Company or by the passage of time or other events specified by the donor. Other donor imposed restrictions are perpetual in nature, whereby the donor stipulates that resources be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions on the consolidated statement of net assets.

Donated services:
Donated services are recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Estimates:
The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents:
Cash equivalents consist primarily of funds invested in short-term interest-bearing accounts. The Company considers all highly liquid investments purchased with initial maturities of three months or less to be cash equivalents. Cash and cash equivalents include money market funds and cash deposits at banks and investment companies. Cash equivalents held within the permanent endowment fund are limited by donors for use for long-term purposes.

Property and equipment:
Purchased property and equipment are recorded at cost. Donations of property and equipment are recorded as support at their estimated fair market value at the date of donation. Expenditures for maintenance and repair which does not extend the life of a capitalized asset are charged to expense as incurred. Assets are being depreciated over estimated useful lives of 3 to 40 years using the straight-line method (see Note 4).

Contributions, grants and pledges receivable:
All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as net assets with donor restrictions that increase that net asset class. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions.

Unconditional promises to give are recorded as received. Unconditional promises to give are reflected as pledges receivable and all are recorded at their net realizable value. There is no material difference between the Company’s long-term pledges receivables recorded at their net realizable value and long-term pledges receivables recorded at present value of their net realizable value, discounted using risk-free interest rates applicable to the years in which the promises were received.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Contributions, grants and pledges receivable - Continued:
Revenue recognition for grants depends on the terms of the contract. All grants received during the years ended December 31, 2023 and 2022 are classified as contributions. As of December 31, 2023 and 2022, refundable grant advances in the amounts of $34,105 and $22,500 are included on the statement of net assets for amounts received on certain conditional promises to give prior to the Company satisfying the grants' measurable performance requirements.

The Company determines the allowance for doubtful accounts on pledges receivable based on management's assessment of the payment history with clients, donors or grantors and current relationships with them. Charging off receivables to bad debt is evaluated on a case-by-case basis. Management has evaluated the pledges receivable as of December 31, 2023 and 2022 and recorded an allowance of $38,725.

Underwriting:
The Company has adopted the Nonmonetary Transactions Subtopic of the FASB Entertainment-Broadcasters Topic. This topic specifies that any barter transactions by broadcasters exchanging underwriting time for the receipt of goods and services shall be reported at the estimated fair market value of the goods or service received. Barter revenue will be reported when on-air spots are broadcast, while an expense will be recorded when goods and services are received or used. If the goods and services are received prior to the broadcast of the commercial, a liability shall be reported. Likewise, if the on-air spot is broadcast first, a receivable shall be reported.

Accordingly, the Company recorded for the years ended December 31, 2023 and 2022 on-air barter revenues of $61,614 and $42,918, respectively and on-air barter expenses of $14,150 and $16,695, respectively. Cumulative on-air barter revenues and expenses do not net to zero as of December 31, 2023 or 2022. Assets in the amounts of $38,365 and $30,928, respectively, are recorded in accounts receivable - trade in the consolidated statements of financial position as of December 31, 2023 and 2022.

The Company expenses underwriting costs as they are incurred. Underwriting expenses, including those related to on-air bartering, for the years ended December 31, 2023 and 2022 were $304,402 and $279,715, respectively, and are included in development expenses on the consolidated statements of activities.

Adoption of Accounting Pronouncement
In June 2016, the FASB issued guidance on Financial Instruments—Credit Losses (FASB ASC 326) which significantly changed how entities will measure credit losses for most financial assets and certain other instruments that aren't measured at fair value through net income. The most significant change in this standard is a shift from the incurred loss model to the expected loss model.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Adoption of Accounting Pronouncement - Continued
Under the standard, disclosures are required to provide users of the financial statements with useful information in analyzing an entity's exposure to credit risk and the measurement of credit losses. Financial assets held by the Company that are subject to the guidance in FASB ASC 326 are trade accounts receivable with the exception of financial assets arising from on-air barter transactions. The Company adopted the standard effective January 1, 2023, with no adjustments made to net assets. The impact of the adoption was not considered material to the financial statements and primarily resulted in new/enhanced disclosures only.

Trade accounts receivable:
Accounts receivable represents amounts due to the Company because of the Company's satisfaction of performance obligations related to underwriting and facility rental. No allowance for credit losses at December 31, 2023 is needed per management's retrospective review of billings to receipts in conjunction with consideration of known future conditions for its trade accounts receivables. Uncollectible amount are written off when all efforts to collect these receivables have been exhausted.

Corporation for Public Broadcasting Community Service Grants:
The Corporation for Public Broadcasting (CPB) is a private, nonprofit grant-making organization responsible for funding more than 1,000 television and radio stations. CPB distributes annual Community Service Grants (CSGs) to qualifying public broadcasting entities. CSGs are used to augment the financial resources of public broadcasting entities and thereby to enhance the quality of programming and expand the scope of public broadcasting services. Each CSG may be expended over one or two federal fiscal years as described in the Communications Act, 47 United States Code Annotated, Section 396(k)(7). The fiscal year and spending period for each CSG begins each October 1st. In any event, each grant must be expended within two years of the initial grant authorization.

According to the Communications Act, funds may be used at the discretion of recipients for purposes relating primarily to production and acquisition of programming. Also, the grants may be used to sustain activities begun with CSGs awarded in prior years. Certain general provisions must be satisfied in connection with application for and use of the grants to maintain eligibility and meet compliance requirements. These general provisions pertain to the use of grant funds, record keeping, audits, financial reporting, mailing lists, and licensee status with the Federal Communications Commission.

The CSGs are reported on the accompanying consolidated financial statements as increases in net assets with donor restrictions until satisfaction of the time and purpose restrictions, after which they are reported as a release from net assets with donor restrictions and an increase in net assets without donor restrictions.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Leases:
The Company determines if a contract is a lease at inception. A contract contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The lease term begins on the commencement date, which is the date the Company takes possession of the asset and may include options to extend or terminate the lease when it is reasonably certain that the option will be exercised. Leases are classified as operating or finance leases based on factors such as the lease term, lease payments, and the economic life, fair value and estimated residual value of the asset. The Company's leases have remaining lease terms ranging from less than five years.

Under Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 842, the Company recognizes a right-of-use ("ROU") asset and lease liability to account for its leases. ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized on the commencement date based on the present value of lease payments over the lease term. ROU assets are based on the lease liability and are increased by prepaid lease payments and decreased by any lease incentives received.

The Company's office space and store front leases contain rent escalations over the lease term. The Company recognizes expense for these leases on a straight-line basis over the lease term. Certain leases require the Company to pay taxes, insurance, maintenance, and other operating expenses associated with the leased asset. Such amounts are not included in the measurement of the ROU assets and lease liabilities to the extent they are variable in nature. These variable lease costs are recognized as a variable lease expense when incurred.

Functional allocation of expenses:
The costs of providing program and supporting activities have been summarized on a functional basis in the consolidated statements of activities. Accordingly, certain costs have been allocated among program and supporting services benefited. Such allocations are determined by management on equitable basis. The allocation methods and expenses that are allocated include the following:

> Time and effort: salaries, taxes and benefits
> Square footage: rent, depreciation on Hatchery building, interest expense, and repairs and maintenance included in office expense in the accompanying consolidated statements of functional expenses

Advertising:
The Company expenses advertising costs as incurred. Advertising expense totaled $31,091 and $15,484 for the years ended December 31, 2023 and 2022, respectively. ....

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Fair value measurements:
FASB ASC 820-10 establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

The three levels of the fair value hierarchy under FASB ASC 820-10 are described as follows:

> Level 1 – Inputs to the valuation methodology are quoted prices available in active markets for identical investments as of the reporting date;
>
> Level 2 – Inputs to the valuation methodology are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value can be determined through the use of models or other valuation methodologies; and
>
> Level 3 – Inputs to the valuation methodology are unobservable inputs in situations where there is little or no market activity for the asset or liability and the reporting entity makes estimates and assumptions related to the pricing of the asset or liability including assumptions regarding risk.

Debt issuance costs:
The Company is subject to the provisions of the Interest - Imputation of Interest topic of FASB ASC 835-30 which requires unamortized debt issuance costs to be presented as a reduction of the outstanding debt and the amortization of the debt issuance costs to be presented as a component of interest expense (see Note 7). GAAP requires that the effective yield method be used to amortize debt issuance costs; however, the effect of using straight-line method is not material to the financial statements for the years ended December 31, 2023 and 2022.

Income taxes:
The Company is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and therefore has made no provision for federal income taxes in the accompanying financial statements. The Company has also been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509(a) and qualifies for deductible contributions as provided in Section 170(b)(1)(A)(vi). There was no unrelated business income for the years ended December 31, 2023 and 2022.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Income taxes - Continued:
FASB ASC Section 740 requires extensive disclosures about uncertain tax positions. The requirements of this standard are applicable to nonprofit organizations. The Company evaluates any uncertain tax positions using the provisions of FASB ASC 450. Accordingly, a loss contingency is recognized when it is probable that a liability has been incurred as of the date of the consolidated financial statements and the amount of the loss can be reasonably estimated. The amount recognized is subject to estimate and management's judgment with respect to the likely outcome of each uncertain tax position.

The Company does not believe that it has engaged in any situation that would result in an uncertain tax position. As a result, management does not believe that any uncertain tax positions currently exist and therefore, no loss contingency is recognized in the accompanying consolidated financial statements. The Company's policy is to record any income tax related penalties and interest incurred as general and administrative expenses. There were no income tax related penalties or interest for the years ended December 31, 2023 and 2022.

NOTE 2 – PROMISES TO GIVE

Unconditional promises to give:
Unconditional promises to give appear as accounts receivable – pledges in the consolidated statements of financial position and are estimated to be collected as follows at December 31, 2023 and 2022:

	2023	2022
Within one year	$ 185,297	$ 195,544
In two to five years	71,066	153,880
Total unconditional promises to give	256,363	349,424
Less allowance for doubtful accounts	(38,725)	(38,725)
Total unconditional promises to give, net	$ 217,638	$ 310,699

NOTE 2 – PROMISES TO GIVE – CONTINUED

CPB:
The Company's CPB community service grant contracts for FY2024 and FY2023 state that the offers are contingent upon CPB receiving its full appropriation of federal funding and are subject to decrease and, if applicable, may require the Company to return payments made in excess of the decreased amount(s). The total amounts of the FY2024 and FY2023 grants are $161,293 and $195,755, respectively. CPB approved the first payment on these grants in the amounts of $112,905 in November 2023 for FY2024 grant and $137,208 in November 2022 for FY2023 grant.

The Company considers the remaining $48,388 and $58,727 of the FY2024 and FY2023 grants, respectively, as conditional promises to give as receipt depends on the occurrence of a specified future and uncertain event to bind the promisor. As of December 31, 2023, only $84,679 of the first payment of $112,905 is included in net assets with donor restrictions as the remaining $28,226 had been released from restriction for activities conducted in October through December 2023 (See Note 6). As of December 31, 2022, only $102,771 of the first payment of $137,208 is included in net assets with donor restrictions as the remaining $34,257 had been released from restriction for activities conducted in October through December 2022 (See Note 6).

NOTE 3 – INVESTMENTS AND RESTRICTED CASH

The Company measures all investments at fair value on a recurring basis. Fair values for Level 1 investments are based on quoted market prices at the date of the consolidated statements of financial position. Fair values for Level 2 investments are other than quoted prices in active markets at the date of the consolidated statements of financial position.

There were no unrestricted investments as of December 31, 2023 and 2022. Restricted investments and cash are held in the KMFA Permanent Endowment Fund (Note 5). Restricted cash and money market funds totaled $33,669 and $27,766 for the years ended December 31, 2023 and 2022, respectively.

	2023		
	Fair Value Measurements Using Input Type		
	Level 1	Level 2	Total
U.S. Treasury, corporate and municipal bonds	$ 400,305	$ -	$ 400,305
Equity securities	1,087,075	-	1,087,075
Real estate investment trusts	-	14,708	14,708
Total	$ 1,487,380	$ 14,708	$ 1,502,088

NOTE 3 – INVESTMENTS AND RESTRICTED CASH - CONTINUED

	2022		
	Fair Value Measurements Using Input Type		
	Level 1	Level 2	Total
U.S. Treasury, corporate and municipal bonds	$ 388,379	$ -	$ 388,379
Equity securities	923,532	-	923,532
Real estate investment trusts	-	24,344	24,344
Total	$ 1,311,911	$ 24,344	$ 1,336,255

NOTE 4 – PROPERTY AND EQUIPMENT

The following is a summary of property and equipment as of December 31, 2023 and 2022:

	Useful Life	2023	2022
Hatchery land and land improvements	N/A	$ 2,250,434	$ 2,250,434
Hatchery building	40 years	6,344,019	6,344,019
Transmitter equipment	10 years	541,598	541,598
Computer equipment	3-5 years	344,571	344,571
Studio equipment	5-15 years	554,355	479,113
Radiating equipment	20 years	101,835	101,835
Other technical equipment	5-10 years	145,794	136,377
Furniture and fixtures	5-7 years	598,785	535,325
Leasehold improvements	5-10 years	62,140	62,140
Transmitter building	20 years	1,983	1,983
Art	5-30 years	71,583	70,097
Signage	10 years	15,209	-
Construction in progress	N/A	-	12,738
Total		11,032,306	10,880,230
Less: Accumulated depreciation		(2,197,614)	(1,896,359)
Property and equipment, net		$ 8,834,692	$ 8,983,871

NOTE 5 – ENDOWMENT FUND

On June 11, 1985, the Company established the KMFA Permanent Endowment Fund (PEF), a trust established for the sole purpose of creating and maintaining a perpetual endowment fund for all net assets with donor restrictions of a perpetual nature. KMFA is the sole beneficiary of the trust and the corpus of the trust cannot be used by the Company for any reason. The corpus of the trust is increased by contributions and by the change in the value of its assets and will be invested in such properties, assets and securities as its Trustees shall determine with the purpose of maintaining the principal of the fund in accordance with reasonable prudent investment standards and in producing a reasonable rate of return on such assets per its investment policy. The PEF Trustees are elected by and from the Board of Trustees of the Company.

An investment policy was adopted to provide guidance for the Trustees to manage the endowment funds in a manner consistent with Texas Uniform Prudent Management of Institutional Funds Act of 2007. The PEF Trustees are to consider both the long-term and short-term needs of the Company in carrying out its purpose, its present and anticipated financial requirements, the expected return on its investments, price level trends and general economic conditions.

Criteria established for this purpose include but are not limited to (1) Achievement of overall investment returns in excess of increases in Consumer Price Index viewed over seven-year time periods, (2) Diversity among high quality financial assets with normally, no more than five percent (5%) of portfolio assets with any one issuer with the exception of U.S. Government securities or money market funds, (3) Fixed income securities are expected to average at least an "AA" credit rating and equities will meet the PEF's high quality selection criteria focused on sustainable growth, strong cash flows, manageable leverage and historical record, and (4) PEF trustees will annually distribute up to six percent (6%) of the value of the trust to KMFA.

The Trustees strive to maintain an average annual distribution rate of four percent (4%) in making the determination of the annual income distribution taking into consideration the amounts already distributed, the needs of KMFA and market condition. Actual returns in any given year may vary. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed by the PEF Trustees so as to not expose the PEF to unacceptable levels of risk.

NOTE 5 – ENDOWMENT FUND - CONTINUED

Changes in the endowment net assets for the years ended December 31, 2023 and 2022 are as follows:

	2023	2022
Endowment net assets, beginning of year	$ 1,369,924	$ 1,599,634
Contributions	11,994	28,491
Transfer in of cash received on prior year PEF pledge	10,000	-
Investment returns and fees:		
Interest and dividends	36,609	34,186
Net realized and unrealized investment losses	192,241	(235,621)
Investment fees	(14,275)	(1,188)
Annual distribution of net investment income	(83,367)	(55,578)
Endowment net assets, end of year	$ 1,523,126	$ 1,369,924

Endowment net assets are comprised of the following as of December 31, 2023 and 2022:

	2023	2022
Cash and money market funds	$ 21,038	$ 33,669
U.S. Treasury and municipal bonds	400,305	388,379
Equity securities	1,087,075	923,532
Real estate investment trusts	14,708	24,344
Total	$ 1,523,126	$ 1,369,924

NOTE 6 – NOTE PAYABLE - BANK

On June 18, 2020, the Company entered into a $3,000,000 real estate lien note agreement (revolving credit line) with Prosperity Bank with a final maturity date of December 18, 2021. Annual interest rate on unpaid principal will be the lesser of U.S. Prime Rate plus one percent (1.00%) per year or eighteen percent (18%) per year, provided that the annual interest rate shall never be less than three and a quarter percent (3.25%) per year. Interest only is payable in monthly installments as it accrues, on or before the 18th of each month beginning July 18, 2020 and continuing thereafter until December 18, 2021, at that time the entire amount of principal and interest remaining unpaid will be payable.

NOTE 6 – NOTE PAYABLE – BANK - CONTINUED

This note is secured by a certain deed of trust by an assignment of leases from the Company in favor of Prosperity Bank and by a limited guaranty from one member of the Company's Board of Directors, an unrelated individual and a nonprofit foundation founded by a member of the Company's Board of Directors. During the year ended December 31, 2021, management of the Company was able to obtain a verbal extension of the maturity date to early 2022 with no other changes to the terms of the note. The $300,000 note balance was paid off on February 16, 2022, and this note was not renewed.

During July 2023, the Company entered into a $500,000 real estate lien note (revolving line of credit) agreement with a financial institution. The annual interest rate on any unpaid principal is the lesser of U.S. Prime Rate plus one-half percent (0.50%) or eighteen percent (18.00%) but never less than six and one-half percent (6.50%). Interest only is payable in monthly installments as it accrues, beginning August 2023 and continuing regularly until maturity in July 2024. The note is secured by a deed of trust, security agreement and financing statement encumbering the Company's Hatchery building. No amounts were drawn on this line of credit during the year ended December 31, 2023.

The Company incurred debt issuance costs totaling $5,345 associated with revolving line of credit which is amortized over the twelve months note term using the straight-line method. Amortization of debt issuance costs for the year ended December 31, 2023, totaled $2,672. This amount is included in interest expense on the accompanying consolidated statements of functional expenses for the year ended December 31, 2023.

The Company is in the process of renewing the revolving line of credit note to extend the maturity until July 2026.

NOTE 7 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes at December 31, 2023 and 2022:

	2023	2022
Subject to expenditure for specific purposes:		
CPB community service grants	$ 84,679	$ 102,771
Capital campaign - Hatchery Building Reserve Fund	177,186	237,510
Capital campaign - Phase II	111,000	-
Capital campaign - Program Innovation Fund	36,500	-
Total net assets with donor purpose restrictions	409,365	340,281

NOTE 7 – NET ASSETS WITH DONOR RESTRICTIONS - CONTINUED

Net assets restricted in perpetuity:		
Endowment - subject to spending policy (Note 5)	1,523,126	1,369,924
Capital campaign - endowment	31,000	41,000
Total net assets restricted in perpetuity	1,554,126	1,410,924
Total net assets with donor restrictions	$ 1,963,491	$ 1,751,205

NOTE 8 – EMPLOYEE BENEFIT PLAN

The Company has a defined contribution salary deferral plan in accordance with Internal Revenue Code Section 403(b). The plan covers substantially all employees meeting the length of service requirement. Under the plan, the Company matches participant deferrals up to five percent (5%) of their salary. Plan contributions incurred by the Company for the years ended December 31, 2023 and 2022 are $28,751 and $37,389, respectively.

NOTE 9 – CONCENTRATION OF CREDIT RISK

The Company maintains cash balances at financial institutions which are insured by the Federal Deposit Insurance Corporation up to $250,000. Although the balances in these accounts can exceed the insured limit from time to time, the Company has not incurred losses related to the deposits and does not believe it is exposed to any significant credit risk on cash and cash equivalents.

The Company has significant investments in money market funds, mutual funds, stocks and bonds and is therefore subject to risk. Investments are made by investment managers engaged by the Company and are monitored by the KMFA Board Trustees and PEF Trustees. Though the market value of the investments is subject to fluctuations on a year-to-year basis, management believes the investment policy is prudent for the long-term welfare of the Company.

NOTE 10 – AVAILABILITY AND LIQUIDITY

The following represents the Company's financial assets at December 31, 2023 and 2022:

	2023	2022
Financial assets at year end:		
Cash and cash equivalents	$ 1,064,828	$ 1,205,041
Accounts receivable:		
Trade	83,911	78,998
Pledges	146,572	156,819
Restricted cash and cash equivalents - PEF	21,038	33,669
Restricted investments - PEF	1,502,088	1,336,255
Total financial assets	2,818,437	2,810,782
Less amounts not available to be used within one year:		
Net assets with donor restrictions	(1,963,491)	(1,751,205)
Add back:		
Net assets released per endowment distribution policy	54,612	83,367
Net assets with purpose restrictions by donor estimated to be met in less than one year	181,179	302,771
Financial assets available to meet general expenditures over the next twelve months	$ 1,090,737	$ 1,445,715

The Company manages its liquidity by developing and adopting an annual operating budget that provides sufficient funds for general expenditures to meet its liabilities and other obligations as they become due. The Company also maintains an annual cash flow projection to monitor its liquidity and fundraising efforts and has access to a $500,000 line of credit (see Note 6), if needed.

NOTE 11 – OPERATING LEASES

In December 2001, the Company entered into a master antenna lease agreement to commence in August 2002. The terms of the lease agreement are monthly lease payments of $4,000 over a 15-year term with an annual four percent (4%) rate increase. Two additional five-year renewals are allowed for in this agreement and were taken during the years ended December 31, 2017 and 2022. The Company used a discount rate of 1.26% on this operating lease for purposes of calculating the initial amount of the right of use asset – tower lease and operating lease liability at January 1, 2022.

NOTE 11 – OPERATING LEASES – CONTINUED

Future minimum lease payments under its noncancelable lease as of December 31, 2022 is as follows:

December 31,		
2024		106,656
2025		112,482
2026		118,560
2027		71,471
Total minimum future rental payments	$	409,169

Rent expense under these operating leases for the years ended December 31, 2023 and 2022 was $114,919 and $104,431, respectively.

NOTE 12 – IN-KIND DONATIONS

For the years ended December 31, 2023 and 2022, in-kind donations without donor restrictions recognized within the consolidated statements of activities included:

	2023	2022
Vehicles	$ 101,579	$ 119,625
Equity securities	1,320	19,502
Total in-kind donations	$ 102,899	$ 139,127

The Company contracts with a third-party auction service which receives and sells all vehicles donated to the Company. The vehicle donations are valued at the actual cash proceeds net of third-party auction service fees.

It is the Company's policy to sell all donated investments to include equity securities within five business days of receipt. Any fees related to the transaction are netted against the sales proceeds to arrive at fair value for the donated investments.

NOTE 13 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through August 14, 2024, the date on which the consolidated financial statements were available to be issued.