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

Consolidated Financial Statements
as of and for the Years Ended
September 30, 2020 and 2019 and
Independent Auditors' Report

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Independent Auditors' Report

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

We have audited the accompanying consolidated financial statements of Capital of Texas Public Telecommunications Council (dba Austin PBS and/or KLRU) (a nonprofit organization) and its subsidiary, KLRU New Ventures, Inc., (a Texas corporation) (collectively, the "Organization"), which comprise the consolidated statements of financial position as of September 30, 2020 and 2019, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of September 30, 2020 and 2019, the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Maxwell Locke & Ritter LLP

Austin, Texas
January 13, 2021

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

Consolidated Statements of Financial Position
September 30, 2020 and 2019

	2020	2019
Assets		
Cash and cash equivalents	$ 4,353,654	$ 1,463,450
Investments	5,249,798	6,046,553
Accounts receivable	203,897	390,569
Capital campaign contributions receivable, net	2,969,334	1,301,110
Prepaid expenses	1,697,003	2,376,669
Program rights	2,688,259	2,724,294
Cash restricted to investment in building construction	3,503,951	635,242
Property and equipment, net	2,543,160	2,830,216
Total Assets	$ 23,209,056	$ 17,768,103
Liabilities and Net Assets		
Liabilities:		
Accounts payable	$ 2,401,290	$ 2,916,811
Accrued liabilities	29,233	23,629
Deferred revenue	1,165,345	1,464,472
PPP loan (Note 8)	1,220,000	-
Total liabilities	4,815,868	4,404,912
Net assets:		
Without donor restrictions:		
Undesignated	6,346,901	6,484,519
Management-designated reserve	202,126	543,636
Management-designated endowment reserve	2,060,255	1,735,820
Total net assets without donor restrictions	8,609,282	8,763,975
With donor restrictions	9,783,906	4,599,216
Total net assets	18,393,188	13,363,191
Total liabilities and net assets	$ 23,209,056	$ 17,768,103

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, 2020
(with comparative totals for the year ended September 30, 2019)

	2020			
	Without Donor Restrictions	With Donor Restrictions	Total	2019 Total
Revenues and net assets released from restrictions:				
Memberships	$ 8,650,577	-	8,650,577	8,402,429
Capital contributions	-	4,658,011	4,658,011	1,936,352
Community service grant	2,022,589	-	2,022,589	1,953,311
In-kind support and contributed services	1,629,011	-	1,629,011	3,930,216
Production underwriting	1,143,248	-	1,143,248	1,268,382
License fees, royalties, and other	1,065,008	-	1,065,008	1,818,954
Special events	667,669	-	667,669	790,774
Investment return, net	246,387	382,981	629,368	247,155
Program underwriting	449,221	-	449,221	556,348
Educational services	281,650	-	281,650	356,875
Endowment contributions	-	250,000	250,000	-
Net assets released from restrictions	106,302	(106,302)	-	-
Total revenues and net assets released from restrictions	16,261,662	5,184,690	21,446,352	21,260,796
Expenses:				
Program services:				
Production	5,168,767	-	5,168,767	5,651,952
Programming	3,126,296	-	3,126,296	3,113,192
Broadcasting	2,435,964	-	2,435,964	2,427,608
New Ventures	491,010	-	491,010	715,202
Marketing and communications	462,160	-	462,160	762,278
Total program services	11,684,197	-	11,684,197	12,670,232
Support services:				
Membership and development	3,081,348	-	3,081,348	3,094,971
Management and general	1,650,810	-	1,650,810	3,683,927
Total support services	4,732,158	-	4,732,158	6,778,898
Total expenses	16,416,355	-	16,416,355	19,449,130
Change in net assets	(154,693)	5,184,690	5,029,997	1,811,666
Net assets, beginning of year	8,763,975	4,599,216	13,363,191	11,551,525
Net assets, end of year	$ 8,609,282	9,783,906	18,393,188	13,363,191

See notes to consolidated financial statements.

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

Consolidated Statement of Activities
Year Ended September 30, 2019

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

See notes to consolidated financial statements.

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

Consolidated Statement of Functional Expenses
Year Ended September 30, 2020
(with comparative totals for the year ended September 30, 2019)

	Program Services						Support Services				
	Production	Programming	Broadcasting	New Ventures	Marketing and Communications	Total Program Services	Membership and Development	Management and General	Total Support Services	2020 Total	2019
Salaries	$ 1,089,431	526,743	1,061,891	179,842	291,177	3,149,084	1,039,968	726,381	1,766,349	4,915,433	4,857,873
Production costs	2,331,284	-	-	55,765	-	2,387,049	-	-	-	2,387,049	2,588,594
Dues and subscriptions	9,487	2,268,930	382	-	-	2,278,799	17,409	39,610	57,019	2,335,818	2,213,098
Benefits	244,731	111,599	246,722	25,297	63,264	691,613	208,546	165,523	374,069	1,065,682	1,042,305
Direct mail and digital	-	-	-	-	-	-	473,694	-	473,694	473,694	426,470
Occupancy	-	-	215,429	-	-	215,429	-	238,236	238,236	453,665	414,537
Maintenance and support	278	13,886	211,925	-	-	226,089	113,314	9,995	123,309	349,398	443,182
Contract services	33,507	3,192	84,830	41,007	-	162,536	73,000	30,432	103,432	265,968	309,669
Professional services	8,986	-	10,080	53,674	-	72,740	81,369	106,892	188,261	261,001	473,123
Events	8,762	2,987	-	-	-	11,749	236,912	-	236,912	248,661	339,185
Supplies	2,753	77,922	93,182	1,276	-	175,133	29,045	4,766	33,811	208,944	167,754
Meetings and travel	9,871	4,732	3,574	5,541	1,574	25,292	145,413	17,905	163,318	188,610	222,482
Postage and shipping	105	1,008	4,280	11,465	968	17,826	82,270	2,357	84,627	102,453	128,596
Insurance	-	-	-	18,842	-	18,842	-	62,601	62,601	81,443	75,521
Printing, graphics, and photography	1,925	-	-	-	26,629	28,554	26,205	729	26,934	55,488	81,472
Internet and telephone	4,065	1,917	40,262	-	402	46,646	1,134	2,659	3,793	50,439	43,435
Advertising and promotions	96	6,646	-	4,058	25,115	35,915	724	134	858	36,773	90,450
Equipment rental	48	-	-	-	-	48	-	26,152	26,152	26,200	25,498
Web expense	-	120	2,174	6,871	10,348	19,513	33	-	33	19,546	24,276
Training	-	-	262	-	-	262	1,048	3,199	4,247	4,509	19,965
Other	2,391	4,948	13,098	87,372	1,600	109,409	288,152	55,579	343,731	453,140	485,512
Subtotal	3,747,720	3,024,630	1,988,091	491,010	421,077	9,672,528	2,818,236	1,493,150	4,311,386	13,983,914	14,472,997
Depreciation and amortization of property and equipment	321,372	80,343	321,372	-	-	723,087	40,171	40,172	80,343	803,430	1,045,917
In-kind support and contributed services	1,099,675	21,323	126,501	-	41,083	1,288,582	222,941	117,488	340,429	1,629,011	3,930,216
Total expenses	$ 5,168,767	3,126,296	2,435,964	491,010	462,160	11,684,197	3,081,348	1,650,810	4,732,158	16,416,355	19,449,130

See notes to consolidated financial statements.

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

Consolidated Statement of Functional Expenses
Year Ended September 30, 2019

	Program Services						Support Services			
	Production	Programming	Broadcasting	New Ventures	Marketing and Communications	Total Program Services	Membership and Development	Management and General	Total Support Services	Total
Salaries	$ 1,093,985	565,222	905,250	188,125	447,948	3,200,530	926,319	731,024	1,657,343	4,857,873
Production costs	2,401,649	-	-	186,945	-	2,588,594	-	-	-	2,588,594
Dues and subscriptions	2,266	2,153,269	799	-	598	2,156,932	17,013	39,153	56,166	2,213,098
Benefits	238,484	114,204	214,368	26,394	96,946	690,396	188,860	163,049	351,909	1,042,305
Direct mail and digital	-	-	-	-	-	-	426,470	-	426,470	426,470
Occupancy	-	-	203,864	-	-	203,864	-	210,673	210,673	414,537
Maintenance and support	52	12,410	291,749	-	-	304,211	121,194	17,777	138,971	443,182
Contract services	110,737	-	84,760	5,309	5,160	205,966	75,380	28,323	103,703	309,669
Professional services	9,259	11,500	33,900	129,300	3,915	187,874	206,274	78,975	285,249	473,123
Events	30,078	3,293	-	-	30	33,401	305,784	-	305,784	339,185
Supplies	5,300	65,443	60,547	2,314	346	133,950	30,210	3,594	33,804	167,754
Meetings and travel	22,297	21,781	20,894	5,710	7,357	78,039	107,333	37,110	144,443	222,482
Postage and shipping	1,248	2,330	12,937	9,192	1,028	26,735	99,449	2,412	101,861	128,596
Insurance	-	-	-	18,495	-	18,495	-	57,026	57,026	75,521
Printing, graphics, and photography	3,449	254	-	-	30,595	34,298	46,859	315	47,174	81,472
Internet and telephone	4,530	1,934	31,405	96	744	38,709	1,562	3,164	4,726	43,435
Advertising and promotions	650	15,056	-	2,979	62,569	81,254	5,117	4,079	9,196	90,450
Equipment rental	-	-	-	-	-	-	2,011	23,487	25,498	25,498
Web expense	12	-	-	6,587	17,677	24,276	-	-	-	24,276
Training	95	-	2,421	-	-	2,516	997	16,452	17,449	19,965
Other	10,705	2,427	13,657	133,756	250	160,795	257,095	67,622	324,717	485,512
Subtotal	3,934,796	2,969,123	1,876,551	715,202	675,163	10,170,835	2,817,927	1,484,235	4,302,162	14,472,997
Depreciation and amortization of property and equipment	418,369	104,589	418,367	-	-	941,325	52,296	52,296	104,592	1,045,917
In-kind support and contributed services	1,298,787	39,480	132,690	-	87,115	1,558,072	224,748	2,147,396	2,372,144	3,930,216
Total expenses	$ 5,651,952	3,113,192	2,427,608	715,202	762,278	12,670,232	3,094,971	3,683,927	6,778,898	19,449,130

See notes to consolidated financial statements.

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

Consolidated Statements of Cash Flow
Years Ended September 30, 2020 and 2019

	2020	2019
Cash Flows From Operating Activities:		
Change in net assets	$ 5,029,997	$ 1,811,666
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized and unrealized gains on investments	(554,959)	(162,711)
Change in discount on long-term capital contributions receivable	9,424	53,534
Amortization of program rights	1,594,784	1,505,301
Depreciation and amortization of property and equipment	803,430	1,045,917
Loss on disposition of property and equipment	-	1,289
Contributions restricted for building construction	(3,579,687)	(635,242)
Contributions restricted for endowment funds	(250,000)	-
Changes in operating assets and liabilities that provided (used) cash:		
Accounts receivable	186,672	478,912
Capital campaign contributions receivable	(1,677,648)	(1,354,644)
Prepaid expenses	679,666	(138,232)
Accounts payable	(408,979)	354,167
Accrued liabilities	5,604	170
Deferred revenue	(299,127)	(267,798)
Net cash provided by operating activities	1,539,177	2,692,329
Cash Flows From Investing Activities:		
Purchases of investments	(2,808,353)	(1,887,618)
Proceeds from sales and maturities of investments	4,160,067	1,807,936
Purchases of program rights	(1,558,749)	(1,655,796)
Purchases of property and equipment	(622,916)	(996,125)
Net cash used in investing activities	(829,951)	(2,731,603)
Cash Flows From Financing Activities:		
Contributions restricted for endowment funds	250,000	-
Contributions restricted for building construction	3,579,687	635,242
Proceeds from PPP loan (Note 8)	1,220,000	-
Net cash provided by financing activities	5,049,687	635,242
Net change in cash, cash equivalents, and restricted cash	5,758,913	595,968
Cash, cash equivalents, and restricted cash, beginning of year	2,098,692	1,502,724
Cash, cash equivalents, and restricted cash, end of year	$ 7,857,605	$ 2,098,692
Supplemental Noncash Disclosure-		
Purchases of property and equipment recorded in accounts payable	$ 23,721	$ 130,263

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, KLRU New Ventures ("KNV"), who is the sole member of a limited liability company, ACL Enterprises ("ACLE"), for the purpose of pursuing commercial business opportunities, in particular those associated with the Austin City Limits ("ACL") brand. Formation of a separate entity protects KLRU from liabilities associated with ACL branding and assures that KLRU's tax-exempt status will not be jeopardized by significant non-exempt purpose activities. KNV has a separate board of directors appointed by the KLRU Board of Directors (the "Board"). KLRU and KNV have agreements in place governing the licensing of KLRU intellectual property to KNV and the management of shared services between the two.

2. Summary of Significant Accounting Policies

Basis of Presentation and Consolidation - The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") as defined by the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"). The consolidated financial statements include the accounts of KLRU, KNV, and ACLE (collectively, the "Organization"). All significant intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates - The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

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

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

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

With Donor Restrictions **-** These net assets are subject to donor-imposed stipulations, which limit their use to a specific purpose and/or the passage of time, or which require them to be maintained permanently. Net assets which are required to be maintained permanently are not available for use in operations and limitations neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization.

Fair Value Measurements - Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value accounting requires characterization of the inputs used to measure fair value into a three-level fair value hierarchy as follows:

Level 1 **-** Inputs based on quoted market prices in active markets for identical assets or liabilities. An active market is a market in which transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 **-** Observable inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent from the entity.

Level 3 **-** Unobservable inputs that reflect the entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available.

There are three general valuation techniques that may be used to measure fair value: 1) market approach - uses prices generated by market transactions involving identical or comparable assets or liabilities, 2) cost approach - uses the amount that currently would be required to replace the service capacity of an asset (replacement cost), and 3) income approach - uses valuation techniques to convert future amounts to present amounts based on current market expectations.

Cash and Cash Equivalents - The Organization considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

Investments - Investments are reported at their fair values in the consolidated statements of financial position. Investment transactions are recorded on the trade date and investment income is recorded in the consolidated statement of activities when earned. Realized gains and losses are recorded as the difference between historical cost and the proceeds earned from the sale of an investment. Unrealized gains and losses are recorded for the change in fair value of investments between reporting periods. This activity is reported as investment return in the consolidated statements of activities, and is recorded net of related investment expenses and also includes dividend and interest income.

Accounts Receivable - Accounts receivable are recorded at the value of the revenue earned, and are considered past due based on how recently payments have been received. Delinquent invoices do not accrue interest. The Organization continually monitors sponsors' credit worthiness individually, and recognizes allowances for estimated bad debts on receivables that are no longer estimated to be collectible. The Organization adjusts any allowance for subsequent collections or upon final determination that an account is no longer collectible. As of both September 30, 2020 and 2019, the Organization did not record an allowance for uncollectible accounts receivables as management deemed all balances to be collectible.

Capital Campaign Contributions Receivable - Unconditional promises to give are recorded at fair value if expected to be collected in one year and at net present value if expected to be collected in more than one year. The Organization records a discount to reflect the present value of receivables using approximate market rates applicable to the years in which the pledge is included in contribution revenue (Note 6). No allowance for uncollectible contributions receivable has been recorded, as historically the Organization has not experienced significant uncollectible amounts.

Program Rights - Program rights are recorded at cost and amortized on a straight-line basis over the period of the license agreements, ranging from one to three years. Amortization, included with dues and subscriptions programming expense in the consolidated statements of activities, is expected to be $1,435,632, $888,780, and $363,847 during the years ending September 30, 2021, 2022, and 2023, respectively.

Property and Equipment - Acquisitions of property and equipment are capitalized at cost if purchased and at fair value on the date of receipt if donated. The Organization capitalizes all acquisitions over $5,000 and expenses maintenance and repairs that do not improve or extend the useful lives of the assets. Property and equipment are depreciated using the straight-line method over periods of three to ten years. Amortization of leasehold improvements is calculated on a straight-line basis at the lesser of the estimated useful life or remaining life of the lease (five to ten years). Construction in process are not depreciated.

Impairment of Long-Lived Assets - Long-lived assets are reviewed for impairment at the asset group level whenever events or changes in circumstances indicate the amount recorded may not be recoverable. An impairment loss is recognized by the amount in which the carrying amount of the asset group exceeds fair value, if the carrying amount of the asset group is not recoverable.

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 statements of activities as net assets released from restrictions. Conditional promises to give, defined as those with a measurable performance or other barrier and a right of return, are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

In-kind Support and Contributed Services - Donated goods are recorded at their estimated fair value when received. Contributions of services are recognized if the services received (a) create or enhance nonfinancial assets and (b) require specialized skills, are performed by individuals possessing these skills and would otherwise need to be purchased if not provided by donation. KLRU receives unconditional contributions of the use of facilities, in which the donor retains legal title to the asset. These contributions are recorded at fair value and recognized as contribution revenue in the period received and expense in the same period the facilities are used.

Community Service Grant - The Corporation for Public Broadcasting ("CPB") is a private, nonprofit grant-making organization responsible for funding more than 1,000 television and radio stations. KLRU records the revenue from these grants as funds are received in accordance with the applicable grant award.

Production Underwriting Revenue and Related Costs - Production costs incurred in connection with the ACL television series are recorded as prepaid expenses until the productions are broadcasted, at which time they are expensed. Related production underwriting revenue is also recognized when the broadcast occurs. Deferred revenue includes amounts received from ACL underwriters in excess of revenue recognized and amounts billed to ACL underwriters under the provisions of their contracts, for which balances may still be outstanding in accounts receivable. All other production costs and related production underwriting revenue is recognized as expenses are incurred.

License Fees and Royalties - License fees are recognized based on contract terms with licensees, typically upon delivery of content. Royalty revenue is recorded in the period in which it is earned, except when the amount of revenue cannot be reasonably determined before it is received, in which case revenue is recognized when funds are received.

Special Events - Special events revenues are recognized in the period the events occur. A portion of deferred revenue is comprised of amounts collected in advance for special events for which the event takes place in the following fiscal year and will be recorded to revenue at the time of the event.

Program Underwriting - Revenue from program underwriting agreements is recognized as the underwriting spots are aired.

Advertising Costs - The Organization expenses advertising costs as incurred.

Functional Allocation of Expenses - The accompanying consolidated financial statements present expenses by functional and natural classification. Natural expenses directly attributable to a specific functional area are reported as expenses of those functional areas. Accordingly, certain costs have been allocated among the program and supporting services using a variety of cost allocation techniques, such as time and effort.

Federal Income Taxes - KLRU is a nonprofit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code ("IRC"), except with respect to any unrelated business income. KLRU did not incur any significant tax liabilities due to unrelated business income during the years ended September 30, 2020 and 2019. KLRU files form 990 tax returns in the U.S. federal jurisdiction and is subject to routine examinations of its returns; however, there are no examinations currently in progress. The Internal Revenue Service has also recognized KLRU as a public charity under Section 509(a)(l) of the IRC.

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

KNV may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained upon examination by the relevant taxing authority based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. Management evaluated KNV's tax positions for all open tax years and believes KNV had no material uncertain tax positions and has recorded no related interest or penalties during the years ended September 30, 2020 and 2019.

Recently Issued Accounting Pronouncements - In May 2014 and August 2015, the FASB issued Accounting Standards Update ("ASU") No. 2014-09 and No. 2015-14, *Revenue from Contracts with Customers*, which supersede the revenue recognition requirements in ASC 605, *Revenue Recognition*, and most industry-specific guidance included in the ASC. The standard requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. The standard is effective retrospectively for fiscal years beginning after December 15, 2019 and early adoption is permitted. The Organization is currently evaluating the impact the standard will have on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires the recognition of lease assets and lease liabilities by lessees for all leases, including leases previously classified as operating leases, and modifies the classification criteria and accounting for sales-type and direct financing leases by lessors. Leases continue to be classified as finance or operating leases by lessees and both classifications require the recognition of a right-of-use asset and a lease liability, initially measured at the present value of the lease payments in the consolidated statements of financial position. Interest on the lease liability and amortization of the right-of-use asset are recognized separately in the consolidated statements of activities for finance leases and as a single lease cost recognized on the straight-line basis over the lease term for operating leases. The standard is effective using a modified retrospective approach for fiscal years beginning after December 15, 2021 and early adoption is permitted. The Organization is currently evaluating the impact the standard will have on its consolidated financial statements.

3. Concentration of Credit Risk

Financial instruments which potentially subject the Organization to credit risk consist of cash and cash equivalents, investments, and accounts receivable. The Organization places its cash and cash equivalents with a limited number of high-quality financial institutions and may exceed the amount of insurance provided on such deposits. Investments are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the near-term could materially affect the amounts reported in the consolidated statements of financial position. The Organization does not maintain collateral for its receivables. As of September 30, 2020 and 2019, two sponsors accounted for 52% and one sponsor comprised 24% of accounts receivable, respectively. As of September 30, 2020 and 2019, one sponsor accounted for 49% and two sponsors account for 34% of capital campaign contributions receivable, respectively. During the years ended September 30, 2020 and 2019 three sponsors comprised 64% and two sponsors accounted for 28% of capital campaign revenue, respectively.

4. Liquidity and Availability of Financial Assets

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

	2020	2019
Cash and cash equivalents	$ 4,353,654	$ 1,463,450
Investments	5,249,798	6,046,553
Accounts receivable	203,897	390,569
Total financial assets available within one year	9,807,349	7,900,572
Less amounts unavailable for general expenditure within one year:		
Donor-restricted endowment funds	(3,189,543)	(2,662,864)
Total amounts available for general expenditure within one year	$ 6,617,806	$ 5,237,708

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

5. Investments

Investments reported at fair value as of September 30, 2020 were as follows:

		Fair Value Measurements Using:		
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Corporate equities	$ 3,073,758	3,073,758	-	-
Corporate bonds	960,888	-	960,888	-
Mutual funds	614,234	614,234	-	-
Cash equivalents	344,585	344,585	-	-
U.S. Treasuries	150,656	-	150,656	-
Real estate investment trust	53,664	53,664	-	-
Municipal bonds	51,625	-	51,625	-
Mortgage pools - FHLMC	388	-	388	-
Total investments	$ 5,249,798	4,086,241	1,163,557	-

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

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

Corporate equities, certificates of deposit, exchange traded funds, mutual funds, money market funds, real estate investment trusts, and cash equivalents are classified within Level 1 of the fair value hierarchy because they are sold on an active market and valued using quoted market prices, broker dealer quotations or other alternative pricing sources with reasonable levels of price transparency. Corporate and municipal bonds, U.S. treasuries, and mortgage pools are classified within Level 2 of the fair value hierarchy since valuations are obtained from readily-available pricing sources for comparable instruments.

Investment return consisted of the following during the years ended September 30:

	2020	2019
Realized gains on investments	$ 1,148,900	$ 505,057
Unrealized losses on investments	(593,941)	(342,346)
Dividend and interest income	101,133	110,325
Investment management fees	(26,724)	(25,881)
Total	$ 629,368	$ 247,155

6. Capital Campaign Contributions Receivable

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

	2020	2019
Amounts due in:		
Less than one year	$ 1,732,954	$ 582,000
One to five years	1,299,338	772,644
	3,032,292	1,354,644
Less discount to net present value	(62,958)	(53,534)
Total	$ 2,969,334	$ 1,301,110

The present value of estimated future cash flows was calculated using a discount rate of 3.75% and 5.00% as of September 30, 2020 and 2019, respectively.

7. Property and Equipment

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

	2020	2019
Studio broadcast equipment	$ 9,988,492	$ 9,988,492
Transmitter / antenna	1,884,199	1,884,199
Office and transportation equipment	1,085,818	1,085,818
Leasehold improvements	1,085,543	1,085,543
	14,044,052	14,044,052
Less accumulated depreciation and amortization	(13,388,825)	(12,585,395)
Construction in process	1,887,933	1,371,559
Total	$ 2,543,160	$ 2,830,216

8. Borrowing Arrangements

Line of Credit

KLRU has available a $750,000 revolving line of credit with a financial institution which expires on March 31, 2021. This line bears interest at the bank's prime rate (3.25% and 5.00% at September 30, 2020 and 2019, respectively) and is collateralized by equipment. No balance was outstanding as of September 30, 2020 and 2019. The line of credit agreement contains a financial covenant that requires the loan to be used for working capital.

Paycheck Protection Program Loan

In April 2020, KLRU received a $1,197,500 loan and KNV received a $22,500 loan under the Paycheck Protection Program ("PPP") which was created through the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") and is administered by the U.S. Small Business Administration ("SBA"). The loans have a fixed interest rate of 1% and mature in 2 years. The loans are eligible for forgiveness by the SBA for the portion of loan proceeds used for payroll costs and other designated operating expenses (as defined) for up to eight weeks or, at the discretion of the borrower, twenty-four weeks (the "Covered Period"), provided at least 60% of loans proceeds are used for payroll costs and KLRU/KNV meet all necessary criteria as defined by the SBA. Payments are deferred until the earlier of (i) the date the SBA remits to the lender the amount of forgiveness granted to KLRU/KNV, or (ii) ten months after the last day of the Covered Period if the KLRU/KNV do not apply for loan forgiveness. KLRU has submitted an application for PPP loan forgiveness as management believes all qualifications have been met, but has not received formal approval as of the date of the auditors' report. KLRU expects the PPP loan will be forgiven during the year ending September 30, 2021, at which point the amount will be recorded as income. On December 8, 2020, KNV received PPP loan forgiveness approval from the SBA.

9. Net Assets With Donor Restrictions

During the year ended September 30, 2020, the Organization began a capital campaign to fund the renovation of a building to serve as the Organization's future headquarters that will include a new administration building and studio space.

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

	2020	2019
Permanent restrictions-		
Donor-restricted endowment funds (Note 10)	$ 1,201,814	$ 951,814
Temporary restrictions:		
Capital campaign	6,594,363	1,936,352
Unappropriated earnings from permanently restricted donor endowments	1,987,729	1,711,050
Total	$ 9,783,906	$ 4,599,216

10. Endowment Fund

The Texas Uniform Prudent Management of Institutional Funds Act ("TUPMIFA") requires and the Board has adopted an endowment policy which requires the preservation of the fair value of the original gift as of the gift date of the perpetual donor-restricted endowment funds absent explicit donor stipulations to the contrary. Donor-restricted net assets are classified at the original value of gifts donated to the permanent endowment, which is named KLRU General Endowment Fund (the "Endowment Fund"), plus the original value of subsequent gifts to the Endowment Fund. The remaining portion of the donor-restricted Endowment Fund is classified as net assets with donor restrictions until those funds are appropriated for expenditure by KLRU in a manner consistent with the standard of prudence prescribed by TUPMIFA and the Board's spending policy.

In accordance with TUPMIFA, KLRU considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of KLRU, and (7) KLRU's investment policies.

The spending policy adopted by the Board is summarized as follows: each year the Endowment Fund reaches $2,000,000, the Endowment Fund may distribute annually up to 5% of the trailing five year average of the investment fund's total market value calculated using the trailing 20 calendar quarters ending September 30 of the current fiscal year. The spending rate calculation shall not include the market value of gifts received within the previous 12 months of the final date of the calculation period that are greater than 10% of the previous fiscal year's market value. Any distribution in excess of 5% of a trailing five year average of the Endowment Fund's total market value must be recommended by the Endowment Committee and approved by the Board. The permanently restricted corpus of the Endowment Fund shall not be expended or distributed for any reason.

The Endowment Investment and Distribution policy details the objectives, asset mix, investment restrictions, external fund management and Board monitoring procedures. The primary objective is to provide a continuing and dependable cash payout, stable and preferably growing in real terms, after giving effect to inflation. The secondary objective is to appreciate the total value of the Endowment Fund over time, exclusive of growth derived from donations. To meet these objectives, the Board organizes and maintains an investment program for the Endowment Fund that attempts to maximize the return on the Endowment's investments, consistent with an appropriate level of risk and subject to generation of adequate current income. Additionally, the Endowment Fund is diversified at all times to provide reasonable assurance that investment in a single security, a class of securities, or industry will not have an excessive impact on the Endowment Fund.

Changes in Endowment Fund net assets were as follows during the year ended September 30, 2020:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 1,735,820	$ 2,662,864	$ 4,398,684
Contribution	-	250,000	250,000
Investment income	28,423	44,456	72,879
Management fees	(10,422)	(16,302)	(26,724)
Net realized and unrealized gains	216,434	338,525	554,959
Appropriations for expenditure	90,000	(90,000)	-
Endowment net assets, end of year	$ 2,060,255	$ 3,189,543	$ 5,249,798

Changes in Endowment Fund net assets were as follows during the year ended September 30, 2019:

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

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

	2020	2019
Permanently Donor Restricted Net Assets- The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by TUPMIFA	$ 1,201,814	$ 951,814
Temporarily Donor Restricted Net Assets- The portion of perpetual endowment funds subject to a restriction under TUPMIFA	$ 1,987,729	$ 1,711,050

11. Community Service Grants

CPB distributes annual Community Service Grants ("CSG") to qualifying public telecommunications entities. The grants are approved by the U.S. Congress each year and could be reduced in the future. KLRU's CSG is reported in the accompanying consolidated financial statements in net assets without donor restrictions; however, certain guidelines must be satisfied in connection with application for and use of the funds to maintain eligibility and compliance requirements. These guidelines pertain to the use of funds, recordkeeping, audits, financial reporting, and licensee status with the Federal Communications Commission (the "FCC"). Such grants were received for specific purposes that are subject to review and audit by government agencies. Such audits could result in a request for reimbursement for expenditures disallowed under terms and conditions of the appropriate agency. In the opinion of KLRU's management, such disallowances, if any, would not be significant.

12. In-Kind Support and Contributed Services

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

	2020	2019
Office space	$ 702,780	$ 737,169
Venue and parking	623,400	818,400
Advertising and marketing services	191,825	204,458
Production and programming services and use of technical equipment	94,447	121,714
Legal services	16,559	11,960
Social media and strategic planning services	-	2,025,000
Furniture	-	11,515
	$ 1,629,011	$ 3,930,216

13. Commitments and Contingencies

Lease commitments

The Organization leases its studio and office space on a renewable, month-to-month basis and leases equipment consisting of a broadcasting tower, transmitter space, and other office equipment under non-cancelable long-term operating lease agreements expiring on various dates through fiscal year 2023. Future minimum operating lease payments were as follows as of September 30, 2020:

2021	$ 230,573
2022	166,723
2023	115,240
2024	5,269
2025	5,269
Thereafter	3,951
Total minimum lease payments	$ 527,025

Rent expense on all operating leases totaled $397,497 and $364,730 during the years ended September 30, 2020 and 2019, respectively.

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

Contingencies

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic, which continues to spread throughout the world. While the disruption is expected to be temporary, there is uncertainty around the severity and duration. Therefore, while this issue may negatively impact the Organization’s business, results of operations, and financial position, the related financial impact cannot be reasonably estimated at this time. As a result of the COVID-19 pandemic, the Organization cancelled or delayed four ACL tapings and replaced them with “Best of” episodes (which includes previously recorded performances), secured a PPP loan (Note 8), and reduced certain operating expenses. The Organization is actively managing the business to maintain its cash flow and management believes that the Organization has adequate liquidity.

14. Retirement Plan

The Organization provides a 403(b) retirement plan, available to all employees with over one year of service. Employees can elect to make additional contributions to the plan through a deduction from their salary on a tax-deferred basis. The Organization contributes 4% of compensation to eligible employees, as defined. The Organization matches up to 3% of the additional tax-deferred contributions made by employees. The Organization’s contributions to the retirement plan totaled $286,487 and $274,037 during the years ended September 30, 2020 and 2019, respectively.

15. Related Party Transactions

Contributions from certain members of the Board totaled $773,839 and $1,625,529 during the years ended September 30, 2020 and 2019, respectively. Outstanding receivables from the Board totaled $155,750 and $975,255 as of September 30, 2020 and 2019, respectively.

16. Subsequent Events

The Organization has evaluated subsequent events through January 13, 2021 (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, except as disclosed in Note 8.