

**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, 2024 AND 2023

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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, 2024 and 2023, 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, 2024 and 2023 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 12, 2025

CAPITOL BROADCASTING ASSOCIATION, INC.
dba KMFA-CLASSICAL 89.5 AND AFFILIATE
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
YEARS ENDED DECEMBER 31, 2024 AND 2023

ASSETS

	<u>2024</u>	<u>2023</u>
Current assets:		
Cash and cash equivalents	\$ 899,788	\$ 1,064,828
Accounts receivable:		
Trade	66,124	83,911
Pledges, net of allowance (Note 2)	174,206	146,572
Grant	3,000	-
Prepaid expenses	<u>30,970</u>	<u>68,068</u>
Total current assets	1,174,088	1,363,379
Right of use asset - tower lease (Note 10)	<u>291,035</u>	<u>397,571</u>
Property and equipment, net (Notes 4, 12 and 13)	<u>8,732,929</u>	<u>8,878,287</u>
Other non-current assets:		
Debt issuance costs, net of amortization (Note 6)	-	2,673
Accounts receivable - pledges, net of current portion (Note 2)	23,150	71,066
Restricted cash equivalents - PEF (Notes 3 and 5)	-	21,038
Restricted investments - PEF (Notes 3 and 5)	<u>1,691,059</u>	<u>1,502,088</u>
Total other non-current assets	<u>1,714,209</u>	<u>1,596,865</u>
Total assets	<u>\$ 11,912,261</u>	<u>\$ 12,236,102</u>

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, 2024 AND 2023

LIABILITIES AND NET ASSETS

	<u>2024</u>	<u>2023</u>
Current liabilities:		
Accounts payable	\$ 53,958	\$ 70,459
Accrued liabilities	78,866	62,603
Deferred revenue	4,400	11,944
Refundable advances - grants	18,510	34,105
Current portion of operating lease liability (Note 10)	<u>112,482</u>	<u>106,656</u>
Total current liabilities	268,216	285,767
Operating lease liability, net of current portion (Note 10)	<u>190,031</u>	<u>302,513</u>
Total liabilities	<u>458,247</u>	<u>588,280</u>
Net assets:		
Without donor restrictions (Note 12)	<u>9,253,961</u>	<u>9,684,331</u>
With donor restrictions (Note 7):		
Purpose restrictions	477,994	409,365
Perpetual in nature	<u>1,722,059</u>	<u>1,554,126</u>
Total net assets with donor restrictions	<u>2,200,053</u>	<u>1,963,491</u>
Total net assets	<u>11,454,014</u>	<u>11,647,822</u>
Total liabilities and net assets	<u>\$ 11,912,261</u>	<u>\$ 12,236,102</u>

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, 2024

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue:			
Contributions and grants	\$ 1,562,055	\$ 407,824	\$ 1,969,879
CPB community service grants	-	186,674	186,674
Underwriting	337,002	-	337,002
On-air barter revenue	73,077	-	73,077
Special events	28,000	-	28,000
Facility rental	235,876	-	235,876
In-kind donations (Notes 12 and 13):			
Vehicles	80,458	-	80,458
Equity securities	1,963	-	1,963
Net investment income (loss)	13,249	208,753	222,002
Other income	363	-	363
Net assets released from restrictions pursuant to endowment distribution policy (Note 5)	54,612	(54,612)	-
Net assets released from restrictions due to satisfaction of purposes	512,077	(512,077)	-
Total support and revenue	2,898,732	236,562	3,135,294
Expenses:			
Program services:			
Production	847,238	-	847,238
Technical	314,146	-	314,146
Events and outreach	264,411	-	264,411
Support services:			
Development	672,186	-	672,186
Marketing	439,833	-	439,833
General and administrative	791,288	-	791,288
Total expenses	3,329,102	-	3,329,102
Change in net assets	(430,370)	236,562	(193,808)
Net assets:			
Beginning of year (Note 12)	9,684,331	1,963,491	11,647,822
End of year	\$ 9,253,961	\$ 2,200,053	\$ 11,454,014

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 <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
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 (Notes 12 and 13):			
Vehicles	101,579	-	101,579
Sculpture	48,000	-	48,000
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	<u>336,149</u>	<u>(336,149)</u>	<u>-</u>
Total support and revenue	<u>2,737,145</u>	<u>212,286</u>	<u>2,949,431</u>
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	<u>597,637</u>	<u>-</u>	<u>597,637</u>
Total expenses	<u>3,131,896</u>	<u>-</u>	<u>3,131,896</u>
Change in net assets	(394,751)	212,286	(182,465)
Net assets:			
Beginning of year	<u>10,079,082</u>	<u>1,751,205</u>	<u>11,830,287</u>
End of year (Note 12)	<u>\$ 9,684,331</u>	<u>\$ 1,963,491</u>	<u>\$ 11,647,822</u>

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, 2024

	Programs			Support Services			
	Production	Technical	Events and Outreach	Development	Marketing	General and Administrative	Total
Salaries, payroll taxes and benefits	\$ 713,804	\$ -	\$ 199,421	\$ 468,839	\$ 278,652	\$ 178,878	\$ 1,839,594
Professional and contract labor	-	48,101	11,360	5,740	1,150	39,234	105,585
Underwriting commissions	-	-	-	-	49,012	-	49,012
Programming and broadcasting expenses	108,691	-	-	-	-	-	108,691
Engineering, computer and IT expenses	9,800	27,900	4,027	21,018	-	-	62,745
Marketing, promotion and advertising	6,860	-	-	447	102,297	1,230	110,834
Donor cultivation and fundraising	-	-	-	61,481	-	-	61,481
Rent (Note 11)	-	114,923	-	-	-	-	114,923
Electrical power & telecommunications	-	113,930	-	-	-	-	113,930
Postage and printing	-	-	-	88,444	-	665	89,109
Depreciation	7,076	4,825	-	-	-	310,503	322,404
Dues, fees and subscriptions	500	-	1,939	9,276	2,630	2,504	16,849
Insurance	-	-	-	-	-	33,497	33,497
Office	-	4,467	3,969	434	54	90,325	99,249
Staff training and development	-	-	220	3,040	-	8,720	11,980
Other expenses	507	-	-	12,089	5,741	123,059	141,396
Special events	-	-	43,475	1,378	297	-	45,150
Interest expense	-	-	-	-	-	2,673	2,673
Total	\$ <u>847,238</u>	\$ <u>314,146</u>	\$ <u>264,411</u>	\$ <u>672,186</u>	\$ <u>439,833</u>	\$ <u>791,288</u>	\$ <u>3,329,102</u>

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	\$ 1,653,105
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	16,980	3,790	14,911	-	-	51,564
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 (Note 12)	6,628	4,519	-	-	-	294,513	305,660
Dues, fees and subscriptions	500	-	1,629	6,031	1,100	1,578	10,838
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	11,179
Other expenses	201	288	-	42,188	19,671	51,023	113,371
Special events	-	-	29,543	37,546	-	-	67,089
Interest expense	59	40	-	-	-	2,574	2,673
Total	\$ <u>885,688</u>	\$ <u>293,782</u>	\$ <u>241,033</u>	\$ <u>708,838</u>	\$ <u>404,918</u>	\$ <u>597,637</u>	\$ <u>3,131,896</u>

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, 2024 AND 2023

	<u>2024</u>	<u>2023</u>
Cash flows from operating activities:		
Changes in net assets	\$ (193,808)	\$ (182,465)
Adjustments to reconcile changes in net assets to net cash flows from operating activities:		
Depreciation	322,404	305,660
Amortization of debt issuance costs included in interest expense	2,673	2,672
Reinvested dividends	(11,239)	-
Donation of investments	(1,963)	(1,320)
Donation of sculpture	-	(48,000)
Net investment (gains)/losses	(172,420)	(229,013)
Amortization of right-to-use asset	106,536	105,232
(Increase) Decrease in:		
Accounts receivable - trade	17,787	(4,913)
Pledges receivable	20,282	93,061
Grant receivable	(3,000)	-
Prepaid expenses	37,098	(28,792)
Increase (Decrease) in:		
Accounts payable	(16,501)	15,059
Accrued liabilities	16,263	14,850
Refundable advances:		
Grant	(15,595)	11,855
Operating lease liability	(106,656)	(101,074)
Deferred revenue	(7,544)	(12,735)
Net cash flows (used in) from operating activities	<u>(5,683)</u>	<u>(59,923)</u>
Net cash flows from (used in) investing activities:		
Purchase of investments	(1,697,786)	(462,657)
Sales and maturities of investments	1,694,437	527,157
Purchase of property and equipment	<u>(177,046)</u>	<u>(152,076)</u>
Net cash flows used in investing activities	<u>(180,395)</u>	<u>(87,576)</u>

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, 2024 AND 2023

	<u>2024</u>	<u>2023</u>
Net cash flows used in financing activities		
Payment of debt issuance costs	<u>-</u>	<u>(5,345)</u>
Net cash flows used in financing activities	<u>-</u>	<u>(5,345)</u>
Net decrease in cash, restricted cash and cash equivalents	(186,078)	(152,844)
Cash, restricted cash and cash equivalents:		
Beginning of year	<u>1,085,866</u>	<u>1,238,710</u>
End of year	\$ <u><u>899,788</u></u>	\$ <u><u>1,085,866</u></u>
Cash, restricted cash and cash equivalents:		
Cash and cash equivalents	\$ 899,788	\$ 1,064,828
Restricted cash equivalents	<u>-</u>	<u>21,038</u>
Total cash, restricted cash and cash equivalents	\$ <u><u>899,788</u></u>	\$ <u><u>1,085,866</u></u>
Supplemental disclosure of noncash investing activity:		
Disposal of fully depreciated property and equipment no longer in service	\$ <u><u>1,289,792</u></u>	\$ <u><u>-</u></u>

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

CAPITOL BROADCASTING ASSOCIATION, INC.
dba KMFA-CLASSICAL 89.5 AND AFFILIATE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2024 AND 2023

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.

CAPITOL BROADCASTING ASSOCIATION, INC.
dba KMFA-CLASSICAL 89.5 AND AFFILIATE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2024 AND 2023

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.

CAPITOL BROADCASTING ASSOCIATION, INC.
dba KMFA-CLASSICAL 89.5 AND AFFILIATE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2024 AND 2023

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, 2024 and 2023 are classified as contributions. As of December 31, 2024 and 2023, refundable grant advances in the amounts of \$18,510 and \$34,105 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, 2024 and 2023 and recorded an allowance of \$38,725.

Trade accounts receivable:

Financial assets held by the Company that are subject to the guidance in Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 326, *Financial Instruments—Credit Losses*, are trade accounts receivable with the exception of financial assets arising from on-air barter transactions. 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, 2024 and 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 amounts are written off when all efforts to collect these receivables have been exhausted.

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, 2024 and 2023 on-air barter revenues of \$73,077 and \$61,614, respectively and on-air barter expenses of \$24,785 and \$14,150, respectively. Cumulative on-air barter revenues and expenses do not net to zero as of December 31, 2024 or 2023. Assets in the amounts of \$5,225 and \$38,365, respectively, are recorded in accounts receivable - trade in the consolidated statements of financial position as of December 31, 2024 and 2023.

CAPITOL BROADCASTING ASSOCIATION, INC.
dba KMFA-CLASSICAL 89.5 AND AFFILIATE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2024 AND 2023

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

Underwriting - Continued:

The Company expenses underwriting costs as they are incurred. Underwriting expenses, including those related to on-air bartering, for the years ended December 31, 2024 and 2023 were \$286,341 and \$304,402, respectively, and are included in development expenses on the consolidated statements of activities.

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.

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.

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

Leases - Continued:

Under 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 master antenna lease contains rent escalations over the lease term. The Company recognizes expense for this lease on a straight-line basis over the lease term. Some 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: 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 \$36,887 and \$31,091 for the years ended December 31, 2024 and 2023, respectively.

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, 2024 and 2023.

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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.

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, 2024 and 2023.

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.

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

Income taxes - Continued:

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, 2024 and 2023.

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, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
Within one year	\$ 212,931	\$ 185,297
In two to five years	<u>23,150</u>	<u>71,066</u>
Total unconditional promises to give	236,081	256,363
Less allowance for doubtful accounts	<u>(38,725)</u>	<u>(38,725)</u>
Total unconditional promises to give, net	\$ <u>197,356</u>	\$ <u>217,638</u>

CPB:

The Company's CPB community service grant contracts for FY2025 and FY2024 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 FY2025 and FY2024 grants are \$197,552 and \$161,293, respectively. CPB approved the first payment on these grants in the amounts of \$138,286 in November 2024 for FY2025 grant and \$112,905 in November 2023 for FY2024 grant.

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NOTE 2 – PROMISES TO GIVE – CONTINUED

CPB:

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, 2024, only \$103,715 of the first payment of \$138,286 is included in net assets with donor restrictions as the remaining \$34,572 had been released from restriction for activities conducted in October through December 2024 (See Note 6).

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).

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, 2024 and 2023. 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, 2024 and 2023, respectively.

	2024		
	Fair Value Measurements Using Input Type		
	Level 1	Level 2	Total
Exchange traded funds	\$ 1,691,059	\$ -	\$ 1,691,059
Total	\$ 1,691,059	\$ -	\$ 1,691,059

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NOTE 3 – INVESTMENTS AND RESTRICTED CASH - CONTINUED

	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 4 – PROPERTY AND EQUIPMENT

The following is a summary of property and equipment as of December 31, 2024 and 2023:

	Useful Life	2024	2023
Hatchery land and land improvements	N/A	\$ 2,250,434	\$ 2,250,434
Hatchery building	40 years	6,539,020	6,344,019
Transmitter equipment	10 years	122,481	541,598
Computer equipment	3-5 years	-	344,571
Studio equipment	5-15 years	349,984	554,355
Radiating equipment	20 years	-	101,835
Other technical equipment	5-10 years	38,193	145,794
Furniture and fixtures	5-7 years	532,655	598,785
Leasehold improvements	5-10 years	-	62,140
Transmitter building	20 years	-	1,983
Art	5-30 years	119,583	119,583
Signage	10 years	15,209	15,209
Total		9,967,559	11,080,306
Less: Accumulated depreciation		(1,234,630)	(2,202,019)
Property and equipment, net		\$ 8,732,929	\$ 8,878,287

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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.

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NOTE 5 – ENDOWMENT FUND - CONTINUED

Changes in the endowment net assets for the years ended December 31, 2024 and 2023 are as follows:

	<u>2024</u>	<u>2023</u>
Endowment net assets, beginning of year	\$ 1,523,126	\$ 1,369,924
Contributions	13,793	11,994
Transfer in of cash received on prior year PEF pledge	-	10,000
Investment returns and fees:		
Interest and dividends	36,620	36,609
Net realized and unrealized investment losses	176,070	192,241
Investment fees	(3,938)	(14,275)
Annual distribution of net investment income	<u>(54,612)</u>	<u>(83,367)</u>
Endowment net assets, end of year	\$ <u>1,691,059</u>	\$ <u>1,523,126</u>

Endowment net assets are comprised of the following as of December 31, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
Cash and money market funds	\$ -	\$ 21,038
U.S. Treasury and municipal bonds	-	400,305
Equity securities	-	1,087,075
Exchange traded funds	1,691,059	-
Real estate investment trusts	<u>-</u>	<u>14,708</u>
Total	\$ <u>1,691,059</u>	\$ <u>1,523,126</u>

NOTE 6 – NOTE PAYABLE - BANK

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. During July 2024, the maturity date of the line of credit was extended until July 2026 and the minimum annual interest rate is five and one-half percent (5.50%). 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 years ended December 31, 2024 and 2023.

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NOTE 6 – NOTE PAYABLE – BANK - CONTINUED

The Company incurred debt issuance costs totaling \$5,345 associated with revolving line of credit which was amortized over the twelve months note term using the straight-line method. Amortization of debt issuance costs for the years ended December 31, 2024 and 2023, totaled \$2,673 and \$2,672, respectively. These amounts are included in interest expense on the accompanying consolidated statements of functional expenses for the years ended December 31, 2024 and 2023.

NOTE 7 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes at December 31, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
Subject to expenditure for specific purposes:		
CPB community service grants	\$ 103,715	\$ 84,679
Capital campaign - Hatchery Building Reserve Fund	101,117	177,186
Capital campaign - Phase II	198,962	111,000
Capital campaign - Program Innovation Fund	56,500	36,500
Back-up transmitter purchase	<u>17,700</u>	<u>-</u>
Total net assets with donor purpose restrictions	<u>477,994</u>	<u>409,365</u>
Net assets restricted in perpetuity:		
Endowment - subject to spending policy (Note 5)	1,691,059	1,523,126
Capital campaign - endowment	<u>31,000</u>	<u>31,000</u>
Total net assets restricted in perpetuity	<u>1,722,059</u>	<u>1,554,126</u>
Total net assets with donor restrictions	<u>\$ 2,200,053</u>	<u>\$ 1,963,491</u>

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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, 2024 and 2023 are \$42,290 and \$28,571, 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 do 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 – 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. Future minimum lease payments under its noncancelable lease as of December 31, 2024 are as follows:

<u>December 31,</u>	
2025	112,482
2026	118,560
2027	<u>71,471</u>
Total minimum future rental payments	\$ <u><u>302,513</u></u>

Rent expense under these operating leases for the years ended December 31, 2024 and 2023 was \$114,923 and \$114,919, respectively.

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NOTE 11 – AVAILABILITY AND LIQUIDITY

The following represents the Company's financial assets at December 31, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
Financial assets at year end:		
Cash and cash equivalents	\$ 899,788	\$ 1,064,828
Accounts receivable:		
Trade	66,124	83,911
Pledges	174,206	146,572
Grant	3,000	-
Restricted cash and cash equivalents - PEF	-	21,038
Restricted investments - PEF	<u>1,691,059</u>	<u>1,502,088</u>
Total financial assets	2,834,177	2,818,437
Less amounts not available to be used within one year:		
Net assets with donor restrictions	(2,200,053)	(1,963,491)
Add back:		
Net assets released per endowment distribution policy	58,051	54,612
Net assets with purpose restrictions by donor estimated to be met in less than one year	<u>358,715</u>	<u>181,179</u>
Financial assets available to meet general expenditures over the next twelve months	\$ <u>1,050,890</u>	\$ <u>1,090,737</u>

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 12 – PRIOR PERIOD ADJUSTMENTS

The Company has restated its previously issued 2023 consolidated financial statements to correct the omission of a sculpture donated to the Company in 2023. The accompanying consolidated financial statements for 2023 have been restated to reflect the \$48,000 property and equipment addition and in-kind income as well as associated depreciation expense of \$4,405. Net assets without donor restrictions as of December 31, 2023, were increased by \$43,595 as a result of these adjustments.

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NOTE 13 – IN-KIND DONATIONS

For the years ended December 31, 2024 and 2023, in-kind donations without donor restrictions recognized within the consolidated statements of activities included:

	<u>2024</u>	<u>2023</u>
Vehicles	\$ 80,458	\$ 101,579
Sculpture	-	48,000
Equity securities	<u>1,963</u>	<u>1,320</u>
Total in-kind donations	<u>\$ 82,421</u>	<u>\$ 150,899</u>

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.

The Company used an appraisal to value the sculpture donation received in 2023.

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 14 – SUBSEQUENT EVENTS

On August 1, 2025, the CPB announced that it will begin an orderly wind-down of its operations following the passage of a federal rescissions package and the release of the Senate Appropriations Committee's FY 2026 Labor, Health and Human Services, Education, and Related Agencies appropriations bill, which excludes funding for CPB for the first time in more than five decades. Approximately six percent (6%) of the Company's revenues for 2024 and 2023 came from CPB community service grants. The Company has implemented targeted marketing and development efforts to include a mid-year annual fund drive that occurred in June 2025 to address the loss of CPB grants.

Management has evaluated subsequent events through August 12, 2025, the date on which the consolidated financial statements were available to be issued.