

**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, 2019 AND 2018

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BROWN, GRAHAM & COMPANY
PROFESSIONAL CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Consolidated Financial Statements

We have audited the accompanying 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, 2019 and 2018, 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 Consolidated 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.

Auditor's 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 auditor's 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 Company'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 Company'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 audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Capitol Broadcasting Association, Inc. and Affiliate as of December 31, 2019 and 2018 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Brown, Graham & Company, P.C.

Austin, Texas
August 13, 2020

CAPITOL BROADCASTING ASSOCIATION, INC.
dba KMFA-CLASSICAL 89.5 AND AFFILIATE
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
YEARS ENDED DECEMBER 31, 2019 AND 2018

ASSETS

	2019	2018
Current assets:		
Cash and cash equivalents	\$ 2,189,003	\$ 1,164,620
Accounts receivable:		
Trade	29,369	48,777
Pledges (Note 2)	625,224	251,533
Prepaid expenses	56,924	55,980
Investments (Note 3)	3,882	3,249,128
Total current assets	2,904,402	4,770,038
Property and equipment, net (Note 4)	4,510,937	695,666
Other non-current assets:		
Accounts receivable - pledges, net of current portion (Note 2)	850,580	401,141
Restricted cash equivalents - PEF (Note 5)	18,122	81,345
Restricted investments - PEF (Notes 3 and 5)	1,390,157	1,172,525
Other assets	-	9,400
Total other non-current assets	2,258,859	1,664,411
Total assets	\$ 9,674,198	\$ 7,130,115

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, 2019 AND 2018

LIABILITIES AND NET ASSETS

	<u>2019</u>	<u>2018</u>
Current liabilities:		
Accounts payable	\$ 34,713	\$ 81,746
Accrued liabilities	62,903	67,292
Construction and retainage payable	567,632	-
Deferred revenue	<u>11,329</u>	<u>15,060</u>
Total liabilities	<u>676,577</u>	<u>164,098</u>
Net assets:		
Without donor restrictions:		
Board designated for capital campaign	-	1,779,504
Undesignated	<u>2,895,942</u>	<u>1,097,807</u>
Total net assets without donor restrictions	2,895,942	2,877,311
With donor restrictions:		
Purpose restrictions (Note 6)	4,693,400	2,834,836
Perpetual in nature (Notes 5 and 6)	<u>1,408,279</u>	<u>1,253,870</u>
Total net assets	<u>8,997,621</u>	<u>6,966,017</u>
Total liabilities and net assets	<u>\$ 9,674,198</u>	<u>\$ 7,130,115</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, 2019

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
Support and revenue:			
Contributions and grants	\$ 1,268,067	\$ 2,121,634	\$ 3,389,701
CPB community service grants	-	202,407	202,407
Underwriting	280,531	-	280,531
On-air barter revenue	47,542	-	47,542
Special events	39,795	-	39,795
Net investment income	264,730	-	264,730
Other income	435	-	435
Net assets released from restrictions pursuant to endowment distribution policy (Note 5)	65,500	(65,500)	-
Net assets released from restrictions due to satisfaction of purposes	<u>245,568</u>	<u>(245,568)</u>	<u>-</u>
Total support and revenue	<u>2,212,168</u>	<u>2,012,973</u>	<u>4,225,141</u>
Expenses:			
Program services:			
Production	706,441	-	706,441
Technical	303,958	-	303,958
Support services:			
Development	614,561	-	614,561
Marketing	339,442	-	339,442
General and administrative	<u>229,135</u>	<u>-</u>	<u>229,135</u>
Total expenses	<u>2,193,537</u>	<u>-</u>	<u>2,193,537</u>
Change in net assets	<u>18,631</u>	<u>2,012,973</u>	<u>2,031,604</u>
Net assets:			
Beginning of year	<u>2,877,311</u>	<u>4,088,706</u>	<u>6,966,017</u>
End of year	<u>\$ 2,895,942</u>	<u>\$ 6,101,679</u>	<u>\$ 8,997,621</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, 2018**

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
Support and revenue:			
Contributions and grants	\$ 1,119,844	\$ 1,434,400	\$ 2,554,244
CPB community service grants	-	232,028	232,028
Underwriting	269,756	-	269,756
In-kind support (Note 7)	1,578	-	1,578
On-air barter revenue	38,286	-	38,286
Special events	36,550	-	36,550
Net investment income (loss)	30,705	(39,105)	(8,400)
Other income	3,657	-	3,657
Net assets released from restrictions pursuant to endowment distribution policy (Note 5)	55,000	(55,000)	-
Net assets released from restrictions due to satisfaction of purposes	<u>337,619</u>	<u>(337,619)</u>	<u>-</u>
Total support and revenue	<u>1,892,995</u>	<u>1,234,704</u>	<u>3,127,699</u>
Expenses:			
Program services:			
Production	677,811	-	677,811
Technical	368,395	-	368,395
Support services:			-
Development	783,782		783,782
Marketing	316,573	-	316,573
General and administrative	<u>244,500</u>	<u>-</u>	<u>244,500</u>
Total expenses	<u>2,391,061</u>	<u>-</u>	<u>2,391,061</u>
Change in net assets	(498,066)	1,234,704	736,638
Net assets:			
Beginning of year	<u>3,375,377</u>	<u>2,854,002</u>	<u>6,229,379</u>
End of year	<u>\$ 2,877,311</u>	<u>\$ 4,088,706</u>	<u>\$ 6,966,017</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, 2019**

	Programs		Support Services			Total
	Production	Technical	Development	Marketing	General and Administrative	
Salaries, payroll taxes and benefits	\$ 487,943	\$ 86,659	\$ 325,029	\$ 171,550	\$ 141,918	\$ 1,213,099
Professional and contract labor	4,338	26,838	17,692	2,400	31,807	83,075
Underwriting commissions	-	-	-	71,132	-	71,132
Programming and broadcasting expenses	92,178	-	-	-	-	92,178
Engineering, computer and IT expenses	9,228	14,542	11,940	2,382	465	38,557
Marketing, promotion and advertising	18,181	-	62,164	86,409	155	166,909
Donor cultivation and fundraising	-	-	50,744	-	-	50,744
Rent (Note 10)	65,288	94,492	25,111	-	10,044	194,935
Electrical power & telecommunications	-	43,990	-	-	-	43,990
Postage and printing	2,511	-	42,526	-	5,577	50,614
Depreciation	6,028	33,248	-	-	3,329	42,605
Dues, fees and subscriptions	500	189	4,550	39	1,373	6,651
Insurance	1,956	-	-	-	9,892	11,848
Office	15,369	4,000	5,407	-	3,541	28,317
Staff training and development	2,542	-	1,200	897	1,528	6,167
Other expenses	379	-	26,534	4,633	10,106	41,652
Contributions	-	-	-	-	9,400	9,400
Special events	-	-	41,664	-	-	41,664
Total	\$ 706,441	\$ 303,958	\$ 614,561	\$ 339,442	\$ 229,135	\$ 2,193,537

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, 2018

	<u>Programs</u>		<u>Support Services</u>			<u>Total</u>
	<u>Production</u>	<u>Technical</u>	<u>Development</u>	<u>Marketing</u>	<u>General and Administrative</u>	
Salaries, payroll taxes and benefits	\$ 468,592	\$ 148,820	\$ 321,280	\$ 146,987	\$ 168,254	\$ 1,253,933
Professional and contract labor	6,945	23,216	213,600	2,700	27,228	273,689
Underwriting commissions	-	-	-	75,223	-	75,223
Programming and broadcasting expenses	89,734	-	-	-	-	89,734
Engineering, computer and IT expenses	7,374	27,937	12,005	2,382	2,443	52,141
Marketing, promotion and advertising	7,706	-	6,860	82,054	790	97,410
Donor cultivation and fundraising	-	-	52,255	-	-	52,255
Rent (Note 10)	56,872	91,296	21,874	-	8,750	178,792
Electrical power & telecommunications	-	37,495	-	-	-	37,495
Postage and printing	1,594	-	57,259	-	4,095	62,948
Depreciation	6,786	34,072	-	-	4,547	45,405
Dues, fees and subscriptions	2,777	433	3,171	1,225	1,852	9,458
Insurance	1,956	-	-	-	8,791	10,747
Office	12,943	4,000	4,867	360	3,753	25,923
Staff training and development	11,830	1,126	7,764	3,850	6,023	30,593
Other expenses	1,959	-	32,794	1,792	7,974	44,519
Special events	743	-	50,053	-	-	50,796
Total	\$ 677,811	\$ 368,395	\$ 783,782	\$ 316,573	\$ 244,500	\$ 2,391,061

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, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Change in net assets	\$ 2,031,604	\$ 736,638
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	42,605	45,405
Donation of investments	(15,620)	(296,200)
Net investment (gain) loss	(266,952)	7,411
(Increase) Decrease in:		
Accounts receivable - trade	19,408	(8,713)
Pledges receivable	(823,130)	(356,358)
Grants receivable	-	(9,664)
Prepaid expenses	(944)	-
Other assets	9,400	-
Increase (Decrease) in:		
Accounts payable	(47,033)	13,684
Accrued liabilities	(4,389)	14,163
Deferred revenue	(3,731)	4,547
	<u>941,218</u>	<u>150,913</u>
Net cash flows from operating activities		
Net cash flows from investing activities:		
Purchase of investments	(531,170)	(2,544,836)
Sales and maturities of investments	3,841,356	2,525,819
Purchase of property and equipment	<u>(3,290,244)</u>	<u>(580,603)</u>
Net cash flows from investing activities	<u>19,942</u>	<u>(599,620)</u>
Net increase (decrease) in cash, restricted cash and cash equivalents	961,160	(448,707)
Cash, restricted cash and cash equivalents:		
Beginning of year	<u>1,245,965</u>	<u>1,694,672</u>
End of year	<u>\$ 2,207,125</u>	<u>\$ 1,245,965</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, 2019 AND 2018

	2019	2018
Cash, restricted cash and cash equivalents:		
Cash and case equivalents	\$ 2,189,003	\$ 1,164,620
Restricted cash equivalents	18,122	81,345
Total cash, restricted cash and cash equivalents	\$ 2,207,125	\$ 1,245,965
Supplemental disclosure of noncash investing activity:		
Purchase of property and equipment with construction and retainage payable	\$ 567,632	\$ -

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, 2019 AND 2018

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.

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.

CAPITOL BROADCASTING ASSOCIATION, INC.
dba KMFA-CLASSICAL 89.5 AND AFFILIATE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018

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

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 20 years using the straight-line method (see Note 4).

Contributions 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 due in the next year are reflected as current pledges receivable and are recorded at their net realizable value. Unconditional promises to give due in subsequent years are reflected as long-term pledges receivable and recorded at the present value of their net realizable value, discounted using risk-free interest rates applicable to the years in which the promises are received.

Grants:

Revenue recognition for grants depends on the terms of the contract. Accounts and grants receivable are considered past due based upon contractual terms of the underlying agreement.

Receivables and bad debts:

The Company follows the direct write-off method of expensing pledges and accounts receivable when they are determined to be uncollectible based on management's assessment of the credit history with clients, donors or grantors having outstanding balances and current relationships with them. Based on the Company's historical bad debt experience and the management's judgment, the effect of using this method (as compared to the allowance method required under GAAP) on the consolidated statements of activities is immaterial.

CAPITOL BROADCASTING ASSOCIATION, INC.
dba KMFA-CLASSICAL 89.5 AND AFFILIATE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018

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

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: repairs and maintenance included in office expense in the accompanying consolidated statements of functional expenses and rent

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.

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, 2019 AND 2018

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

Underwriting expenses:

The Company has adopted the Nonmonetary Transactions Subtopic of the Entertainment-Broadcasters Topic of Financial Accounting Standards Board Accounting Standards Codification (FASB ASC). 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, 2019 and 2018 on-air barter revenues of \$47,542 and \$38,286, respectively and on-air barter expenses of \$49,810 and \$40,878, respectively. Cumulative on-air barter revenues and expenses do not net to zero as of December 31, 2019 or 2018. A liability in the amount of \$6,722 and \$4,454 is recorded in accrued liabilities in the consolidated statements of financial position for the years ended December 31, 2019 and 2018.

The Company expenses underwriting costs as they are incurred. Underwriting expenses, including those related to on-air bartering, for the years ended December 31, 2019 and 2018 were \$270,003 and \$273,099, respectively, and are included in development expenses on the consolidated statements of activities.

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.

CAPITOL BROADCASTING ASSOCIATION, INC.
dba KMFA-CLASSICAL 89.5 AND AFFILIATE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018

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

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 were no unrelated business income for the years ended December 31, 2019 and 2018.

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

The Company does not believe that it has engaged in any situation that would result in an uncertain tax position. As a result, management does not believe that any uncertain tax positions currently exist and therefore, no loss contingency is recognized in the accompanying consolidated financial statements. The Company's policy is to record any income tax related penalties and interest incurred as general and administrative expenses. There were no income tax related penalties and interest for the years ended December 31, 2019 and 2018.

Changes in accounting principles:

In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-15, *Statement of Cash Flows (Topic 230)*. The update standardized how certain transactions should be classified in the statement of cash flows. The Company adopted ASU 2016-15 during the year ended December 31, 2019 using a retrospective basis for all periods presented. There was no effect on the change in net assets for the year ended December 31, 2018.

In November 2016, the FASB issued ASU 2016-18, *Restricted Cash (a consensus of the FASB Emerging Issues Task Force)*, which addresses classification and presentation of changes in restricted cash on the statement of cash flows. ASU 2016-18 requires the reconciliation of the beginning-of-year and end-of-year total amounts shown on the Company's consolidated statements of cash flows to include in cash and cash equivalents amounts generally described as restricted cash and restricted cash equivalents. The Company adopted ASU 2016-18 on January 1, 2019, using a retrospective transition method for each period presented. There was no effect on the change in net assets for the year ended December 31, 2018.

CAPITOL BROADCASTING ASSOCIATION, INC.
dba KMFA-CLASSICAL 89.5 AND AFFILIATE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018

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

Changes in accounting principles - Continued:

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958)*. The update should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The Company adopted ASU 2018-08 during the year ended December 31, 2019 using a retrospective basis for all periods presented. There were no changes to the previously reported change in net assets for the year ended December 31, 2018.

Recent accounting pronouncements:

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This update, along with ASU 2016-08, *Revenue from Contracts with Customers (Topic 606), Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*, ASU 2016-10, *Revenue from Contracts with Customers (Topic 606), Identifying Performance Obligations and Licensing*, and ASU 2016-12, *Revenue from Contracts with Customers (Topic 606), Narrow-Scope Improvements and Practical Expedients*, establishes a comprehensive revenue recognition standard. The updates require that revenue be recognized to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Additional disclosure is also required to enable financial statement users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2019. Management does not anticipate that adoption of this update will have a material effect on its consolidated financial statements and disclosures.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires an entity that is a lessee to recognize the assets and liabilities arising from leases on the balance sheet. The amendments in ASU No. 2016-02 also require disclosures about the amount, timing and uncertainty of cash flows arising from leases. ASU No. 2016-02 is effective for annual reporting periods beginning after December 15, 2021 using a modified retrospective approach, and early adoption is permitted. Management is evaluating the effect this update will have on its consolidated financial statements and disclosures.

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NOTE 2 – PROMISES TO GIVE

CPB:

The Company’s CPB community service grant contracts for FY2020 and FY2019 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 FY2020 and FY2019 grants are \$203,573 and \$199,689, respectively. CPB approved the first payment on these grants in the amounts of \$142,501 in March 2020 for the FY2020 grant and \$139,783 in November 2018 for the FY2019 grant.

The Company considers the remaining \$61,072 and \$59,906 of the FY2020 and FY2019 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, 2019, only \$106,876 of the first payment of \$142,501 is included in net assets with donor restrictions as the remaining \$35,625 had been released from restriction for activities conducted in October through December 2019 (See Note 6). As of December 31, 2018, only \$104,837 of the first payment of \$139,783 is included in net assets with donor restrictions as the remaining \$34,946 had been released from restriction for activities conducted in October through December 2018 (See Note 6).

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, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Within one year	\$ 625,224	\$ 251,533
In two to five years	<u>850,580</u>	<u>401,141</u>
Total unconditional promises to give	<u>\$ 1,475,804</u>	<u>\$ 652,674</u>

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.

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NOTE 3 – INVESTMENTS AND RESTRICTED CASH - CONTINUED

Unrestricted investments are comprised of the following as of December 31, 2019 and 2018:

	2019	
	Fair Value Measurements Using Input Type	
	Level 1	Total
Mutual funds	\$ 3,882	\$ 3,882
Total	\$ 3,882	\$ 3,882

	2018	
	Fair Value Measurements Using Input Type	
	Level 1	Total
Certificates of deposit	\$ 3,245,025	\$ 3,245,025
Mutual funds	4,103	4,103
Total	\$ 3,249,128	\$ 3,249,128

Restricted investments and cash are held in the KMFA Permanent Endowment Fund (Note 5). Restricted cash and money market funds totaled \$18,122 and \$81,345 for the years ended December 31, 2019 and 2018, respectively.

Restricted investments are comprised of the following as of December 31, 2019 and 2018:

	2019		
	Fair Value Measurements Using Input Type		
	Level 1	Level 2	Total
U.S. Treasury, corporate and municipal bonds	\$ 536,865	\$ -	\$ 536,865
Equity securities	695,527	-	695,527
Exchange traded funds	120,500	-	120,500
Real estate investment trusts	-	37,265	37,265
Total	\$ 1,352,892	\$ 37,265	\$ 1,390,157

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NOTE 3 – INVESTMENTS AND RESTRICTED CASH – CONTINUED

	2018		
	<u>Fair Value Measurements Using Input Type</u>		
	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
U.S. Treasury bonds	\$ 476,527	\$ -	\$ 476,527
Equity securities	581,785	-	581,785
Exchange traded funds	95,361		95,361
Real estate investment trusts	-	18,852	18,852
 Total	 \$ <u>1,153,673</u>	 \$ <u>18,852</u>	 \$ <u>1,172,525</u>

NOTE 4 – PROPERTY AND EQUIPMENT

The following is a summary of property and equipment as of December 31, 2019 and 2018:

	<u>Useful Life</u>	<u>2019</u>	<u>2018</u>
Transmitter equipment	10 years	\$ 437,943	\$ 426,203
Computer equipment	3-5 years	344,571	342,679
Studio equipment	5-15 years	205,922	205,922
Radiating equipment	20 years	101,835	101,835
Other technical equipment	5-10 years	110,599	110,599
Furniture and fixtures	5 years	46,804	46,804
Leasehold improvements	5-10 years	54,300	54,300
Transmitter building	20 years	1,983	1,983
Construction in progress (Note 12)	N/A	4,454,808	610,564
 Total		 5,758,765	 1,900,889
 Less: Accumulated depreciation		 <u>(1,247,828)</u>	 <u>(1,205,223)</u>
 Property and equipment, net		 \$ <u>4,510,937</u>	 \$ <u>695,666</u>

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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.

Changes in the endowment net assets for the years ended December 31, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Endowment net assets, beginning of year	\$ 1,253,870	\$ 1,334,699
Contributions	33,468	13,276
Investment returns and fees:		
Interest and dividends	29,688	26,850
Net realized and unrealized investment losses	170,069	(57,981)
Investment fees	(13,316)	(7,974)
Annual distribution of net investment income	<u>(65,500)</u>	<u>(55,000)</u>
Endowment net assets, end of year	<u>\$ 1,408,279</u>	<u>\$ 1,253,870</u>

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NOTE 5 – ENDOWMENT FUND – CONTINUED

Endowment net assets are comprised of the following as of December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Cash and money market funds	\$ 18,122	\$ 81,345
U.S. Treasury and municipal bonds	536,865	476,527
Equity securities	695,527	581,785
Exchange traded funds	120,500	95,361
Real estate investment trusts	<u>37,265</u>	<u>18,852</u>
Total	<u>\$ 1,408,279</u>	<u>\$ 1,253,870</u>

NOTE 6 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Subject to expenditure for specific purposes:		
CPB community service grants	\$ 106,876	\$ 104,837
Capital campaign	<u>4,586,524</u>	<u>2,729,999</u>
	4,693,400	2,834,836
Endowment (Note 5):		
Subject to endowment spending policy	<u>1,408,279</u>	<u>1,253,870</u>
Total	<u>\$ 6,101,679</u>	<u>\$ 4,088,706</u>

NOTE 7 – IN-KIND SUPPORT

The value of donated service and goods and the corresponding expenses included in the consolidated financial statements for the years ended December 31, 2019 and 2018 totals \$-0- and \$1,578, respectively. In-kind expenses are included in professional and contract labor expenses on the accompanying consolidated statements of functional expenses.

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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 during the years ended December 31, 2019 and 2018 as \$35,840 and \$34,727, respectively.

NOTE 9 – CONCENTRATION OF CREDIT RISK

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

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

NOTE 10 – 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. During the year ended December 31, 2017, the lease was renewed for one additional five-year period.

The Company also has an operating lease agreement for its office space that was renewed in April 2014 for a five year term. The terms of the office lease call for monthly lease payments of \$5,866. During the year ended December 31, 2017, the lease was amended to include certain second floor office spaces for monthly lease payments totaling \$7,116 beginning August 2017.

During the year ended December 31, 2019, the Company entered into a twelve month commercial lease for its office space from September 1, 2019 to August 31, 2020. The base monthly rent is \$10,000. The lease provides for two 2 month extensions with proper notice as defined in this agreement.

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NOTE 10 – OPERATING LEASES – CONTINUED

At December 31, 2019, future minimum lease payments are as follows:

December 31,	<u>Tower</u>	<u>Office</u>	<u>Total</u>
2020	\$ 93,643	\$ 80,000	\$ 173,643
2021	93,643	-	93,643
2022	<u>54,625</u>	<u>-</u>	<u>54,625</u>
Total minimum future rental payments	<u>\$ 241,911</u>	<u>\$ 80,000</u>	<u>\$ 321,911</u>

Rent expense under these operating leases for the years ended December 31, 2019 and 2018 was \$194,935 and \$178,792, respectively.

NOTE 11 – AVAILABILITY AND LIQUIDITY

The following represents the Company's financial assets at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Financial assets at year end:		
Cash and cash equivalents	\$ 2,189,003	\$ 1,164,620
Accounts receivable:		
Trade	29,369	48,777
Pledges	625,224	251,533
Investments	3,882	3,249,128
Restricted cash and cash equivalents - PEF	18,122	81,345
Restricted investments - PEF	<u>1,390,157</u>	<u>1,172,525</u>
Total financial assets	4,255,757	5,967,928
Less amounts not available to be used within one year:		
Net assets designated by board for capital campaign	-	(1,779,504)
Net assets with donor restrictions	(6,101,679)	(4,088,706)
Less net assets released per endowment distribution policy	55,000	55,000
Less net assets with purpose restrictions by donor estimated to be met in less than one year	<u>4,693,400</u>	<u>104,837</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 2,902,478</u>	<u>\$ 259,555</u>

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NOTE 11 – AVAILABILITY AND LIQUIDITY - CONTINUED

Net assets with donor restrictions – capital campaign are expected to be fully released for expenditures related to the construction of the new facility in 2020 (see Note 12).

The Company manages its liquidity by developing and adopting an annual operating budget that provides sufficient funds for general expenditures in meeting 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.

Subsequent to the year ended December 31, 2019, the Company entered into a \$3,000,000 real estate lien note (revolving credit line) agreement to fund completion of the construction of the new facility (see Notes 12 and 13).

NOTE 12 – COMMITMENTS FOR ACQUISITION AND CONSTRUCTION OF NEW FACILITY

After broadcasting from leased space for 52 years, the Company is building a new permanent home in Austin. In June 2019, the Company purchased land adjacent to the Rebekah Baines Johnson Center as part of a mixed-use development just east of Highway I-35 on the north shore of Lady Bird Lake. The planned 18,000-square-foot building will open in late 2020, tripling the size of its current studios and allowing for new amenities including performance and recording spaces.

As of December 31, 2019, the Company had open contract commitments of approximately \$3,789,000 for construction, architecture, project management, equipment and other costs related to the new facility. Costs incurred related to these commitments total \$2,053,610 as of December 31, 2019 and are included in construction in progress within property and equipment on the consolidated statements of financial position.

NOTE 13 – SUBSEQUENT EVENTS

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the “COVID-19 outbreak”) and the risks to the international community as the virus spread globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the Company’s financial condition, liquidity, and future results of operations. The Company is closely monitoring its operations, liquidity, and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the date of issuance of these consolidated financial statements, the full impact to the Company’s financial position is not known.

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NOTE 13 – SUBSEQUENT EVENTS – CONTINUED

On April 20, 2020, the Company was granted a \$237,200 loan under the Paycheck Protection Program (PPP) administered by a Small Business Administration (SBA) approved partner. The loan is uncollateralized and is fully guaranteed by the Federal government. The Company is eligible for loan forgiveness of up to 100% of the PPP loan, upon meeting certain requirements. The Company has initially recorded the PPP loan as a refundable advance and will record the forgiveness in accordance with guidance for conditional contributions when there is no longer a measurable performance or other barrier and a right to return of the PPP loan. Proceeds from the PPP loan are eligible for forgiveness if they are used for certain payroll, rent, and utility expenses. The Company will be required to repay any remaining balance, plus interest accrued at one percent (1.00%) in eighteen monthly payments, commencing in November 2020. The Company intends to use the entire PPP loan amount for qualifying expenses.

On June 18, 2020, the Company entered into a \$3,000,000 real estate lien note agreement (revolving credit line) with Prosperity Bank with a final maturity date of December 18, 2021. Annual interest rate on unpaid principal will be the lesser of U.S. Prime Rate plus one percent (1.00%) per year or eighteen percent (18%) per year, provided that the annual interest rate shall never be less than three and a quarter percent (3.25%) per year. Interest only is payable in monthly installments as it accrues, on or before the 18th of each month beginning July 18, 2020 and continuing thereafter until December 18, 2021, at that time the entire amount of principal and interest remaining unpaid will be payable. This note is secured by a certain deed of trust by an assignment of leases from the Company in favor of Prosperity Bank and by a limited guaranty from one member of the Company's Board of Directors, an unrelated individual and a nonprofit foundation founded by a member of the Company's Board of Directors.

Management has evaluated subsequent events through August 13, 2020, the date on which the consolidated financial statements were available to be issued.