CAPITAL OF TEXAS PUBLIC TELECOMMUNICATIONS COUNCIL

Consolidated Financial Statements as of and for the Years Ended September 30, 2013 and 2012 and Independent Auditors' Report

MAXWELL & LOCKE RITTER

MAXWELL LOCKE & RITTER LLP
Accountants and Consultants
An Affiliate of CPAmerica International
tel (512) 370 3200 fax (512) 370 3250
www.mlrpc.com

Austin: 401 Congress Avenue, Suite 1100
Austin, TX 78701

Round Rock: 303 East Main Street
Round Rock, TX 78664

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Capital of Texas Public Telecommunications Council:

We have audited the accompanying consolidated financial statements of the Capital of Texas Public Telecommunications Council (a nonprofit organization) and KLRU New Ventures, Inc., a subsidiary Texas corporation (collectively, the "Organization"), which comprise the consolidated statements of financial position as of September 30, 2013 and 2012, the related consolidated statements of activities and functional expenses for the year ended September 30, 2013, the consolidated statements of cash flows for the years ended September 30, 2013 and 2012, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Organization as of September 30, 2013 and 2012, the changes in its net assets for the year ended September 30, 2013, and the changes in its cash flows for the years ended September 30, 2013 and 2012 in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Organization's statements of activities and functional expenses for the year ended September 30, 2012, and our report dated December 18, 2012, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Maxwell Locke + Ritter LLP

Austin, Texas
January 16, 2014

CAPITAL OF TEXAS PUBLIC TELECOMMUNICATIONS COUNCIL

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2013 AND 2012

	2013	2012
ASSETS:		
Cash and cash equivalents	$ 544,332	$ 281,028
Investments	2,371,580	1,891,928
Accounts receivable	476,041	127,088
Pledges receivable	4,333	295,432
Program rights	1,778,820	1,738,338
Prepaid expenses	1,220,106	1,213,823
Property and equipment, net	6,224,679	7,192,686
TOTAL ASSETS	$ 12,619,891	$ 12,740,323
LIABILITIES AND NET ASSETS:		
LIABILITIES:		
Accounts payable	$ 1,687,717	$ 1,544,113
Accrued liabilities	21,699	23,382
Deferred revenue	1,337,798	1,272,765
Line of credit	1,900,012	2,024,227
TOTAL LIABILITIES	4,947,226	4,864,487
NET ASSETS:		
Unrestricted - Board designated	174,190	97,703
Unrestricted - undesignated	5,417,001	5,994,860
Total unrestricted net assets	5,591,191	6,092,563
Temporarily restricted	1,166,485	947,106
Permanently restricted	914,989	836,167
TOTAL NET ASSETS	7,672,665	7,875,836
TOTAL LIABILITIES AND NET ASSETS	$ 12,619,891	$ 12,740,323

See notes to consolidated financial statements.

CAPITAL OF TEXAS PUBLIC TELECOMMUNICATIONS COUNCIL

CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2013
(with summarized comparative totals for the year ended September 30, 2012)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2013 Total	2012 Total
REVENUES:					
Membership	$ 5,063,947	-	-	5,063,947	3,938,199
In-kind support and contributed services	1,987,048	-	-	1,987,048	1,716,179
Production	1,496,246	-	-	1,496,246	1,833,977
Community service grant	1,256,568	-	-	1,256,568	1,220,867
License fees, royalties and other	1,105,108	-	-	1,105,108	1,039,156
Program underwriting	583,993	-	-	583,993	519,652
Special events	317,469	-	-	317,469	359,361
Net investment return	4,691	299,425	-	304,116	267,050
Educational services	263,743	-	-	263,743	111,754
Capital contributions	172,628	-	-	172,628	690,215
Endowment contributions	18,213	2,886	78,822	99,921	50,125
Net assets released from restrictions	82,932	(82,932)	-	-	-
Total revenues	12,352,586	219,379	78,822	12,650,787	11,746,535
EXPENSES:					
Program services:					
Production	4,610,240	-	-	4,610,240	4,576,866
Programming	2,046,140	-	-	2,046,140	1,886,310
Broadcasting	1,996,119	-	-	1,996,119	2,034,370
Marketing and communications	570,135			570,135	575,352
New Ventures	122,191	-	-	122,191	-
Total program services	9,344,825	-	-	9,344,825	9,072,898
Support services:					
Membership and development	1,938,593	-	-	1,938,593	2,096,061
Management and general	1,570,540	-	-	1,570,540	1,289,663
Total support services	3,509,133	-	-	3,509,133	3,385,724
Total expenses	12,853,958	-	-	12,853,958	12,458,622
CHANGE IN NET ASSETS	(501,372)	219,379	78,822	(203,171)	(712,087)
NET ASSETS, BEGINNING OF YEAR	6,092,563	947,106	836,167	7,875,836	8,587,923
NET ASSETS, END OF YEAR	$ 5,591,191	1,166,485	914,989	7,672,665	7,875,836

See notes to consolidated financial statements.

CAPITAL OF TEXAS PUBLIC TELECOMMUNICATIONS COUNCIL

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED SEPTEMBER 30, 2013
(with summarized comparative totals for the year ended September 30, 2012)

	Program Services						Support Services				
	Production	Programming	Broadcasting	Marketing and Communications	New Ventures	Total Program Services	Membership and Development	Management and General	Total Support Services	2013 Total	2012 Total
Salaries, wages, benefits	$ 847,732	491,368	895,096	367,780	1,216	2,603,192	615,759	638,994	1,254,753	3,857,945	3,634,996
Production costs	1,614,836	-	-	-	-	1,614,836	-	-	-	1,614,836	2,022,128
Dues and subscriptions	1,064	1,265,162	185	454	4,477	1,271,342	88,813	32,978	121,791	1,393,133	1,330,750
Professional services	148,631	21,812	92,214	5,875	77,678	346,210	199,033	92,001	291,034	637,244	606,638
Occupancy	2,952	2,738	219,153	1,858	-	226,701	37,580	308,370	345,950	572,651	561,808
Supplies and postage	56,523	75,840	8,402	2,458	313	143,536	49,118	9,474	58,592	202,128	171,288
Maintenance and support	7,459	7,220	102,554	1,041	-	118,274	29,260	18,803	48,063	166,337	110,444
Special events and other	5,657	-	-	1,430	-	7,087	90,875	-	90,875	97,962	138,257
Travel and meetings	25,305	3,845	3,676	791	3,070	36,687	30,654	26,745	57,399	94,086	85,493
Advertising and promotions	9,666	17,065	-	23,258	206	50,195	5,472	4,674	10,146	60,341	68,648
Printing and graphics	2,325	751	-	13,843	-	16,919	13,604	-	13,604	30,523	52,608
Rental equipment	2,133	-	-		-	2,133	-	19,681	19,681	21,814	21,045
Overhead reduction	(18,697)	(19,299)	-	(2,383)	-	(40,379)	-	-	-	(40,379)	(141,351)
Miscellaneous	68,343	32,173	34,947	8,306	35,231	179,000	553,423	118,201	671,624	850,624	798,968
Subtotal	2,773,929	1,898,675	1,356,227	424,711	122,191	6,575,733	1,713,591	1,269,921	2,983,512	9,559,245	9,461,720
Depreciation	504,191	126,048	504,191	-	-	1,134,430	63,024	63,024	126,048	1,260,478	1,310,133
Loss on disposition of assets	37,931	-	50,483	-	-	88,414	-	-	-	88,414	-
	542,122	126,048	554,674	-	-	1,222,844	63,024	63,024	126,048	1,348,892	-
In-kind support and contributed services	1,294,189	21,417	85,218	145,424	-	1,546,248	161,978	237,595	399,573	1,945,821	1,686,769
	$ 4,610,240	2,046,140	1,996,119	570,135	122,191	9,344,825	1,938,593	1,570,540	3,509,133	12,853,958	12,458,622

See notes to consolidated financial statements.

CAPITAL OF TEXAS PUBLIC TELECOMMUNICATIONS COUNCIL

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ (203,171)	$ (712,087)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,260,478	1,310,133
Amortization of program rights	1,051,112	1,010,265
Loss on disposition of property and equipment	88,414	-
Net realized and unrealized gains on investments	(254,177)	(227,645)
Contributions for endowment funds	(99,921)	(50,125)
Contributions of equipment	(41,227)	(29,846)
Changes in operating assets and liabilities:		
Accounts receivable	(348,953)	187,109
Pledges receivable	291,099	(138,179)
Program rights	(1,091,594)	(1,102,826)
Prepaid expenses	(6,283)	20,239
Accounts payable	143,604	(71,053)
Accrued liabilities	(1,683)	(25,423)
Deferred revenue	65,033	(126,673)
Net cash provided by operating activities	852,731	43,889
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(390,966)	(249,419)
Proceeds from sale of property and equipment	51,308	-
Purchase of investments	(1,318,198)	(1,299,604)
Proceeds from investment sales and maturities	1,092,723	1,223,334
Net cash used in investing activities	(565,133)	(325,689)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions for endowment funds	99,921	50,125
Principal borrowings on lines of credit	1,295,139	817,819
Principal payments on lines of credit	(1,419,354)	(1,793,592)
Net cash used in financing activities	(24,294)	(925,648)
NET CHANGE IN CASH AND CASH EQUIVALENTS	263,304	(1,207,448)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	281,028	1,488,476
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 544,332	$ 281,028
SUPPLEMENTAL DISCLOSURE-		
Cash paid for interest	$ 75,746	$ 98,985

See notes to consolidated financial statements.

1. NATURE OF OPERATIONS

Capital of Texas Public Telecommunications Council ("KLRU") is a nonprofit corporation providing public and educational broadcast services through its licensed station, KLRU (Channel 18) as well as other digital and cable broadcast channels, online video content and direct community services. This station is the public television station for Central Texas which broadcasts high-quality programs to viewers in Austin, Texas and other surrounding areas of Central Texas. KLRU is a member of the Public Broadcasting Service.

KLRU has formed a for-profit C corporation subsidiary, KLRU New Ventures ("KNV"), and a second tier LLC subsidiary, ACL Enterprises ("ACLE"), for the purpose of pursuing commercial business opportunities, in particular those associated with ACL Brand. Formation of a separate entity protects KLRU from liabilities associated with ACL Branding and assures that KLRU's tax-exempt status will not be jeopardized by significant non-exempt purpose activities. KNV is wholly owned by KLRU, with a separate Board of Directors appointed by the KLRU Board. ACLE is wholly owned by KNV. KLRU and KNV have agreements in place governing the licensing of KLRU intellectual property to KNV and the management of shared services between the two. Together, these two entities are referred to as KNV/ACLE.

KNV/ACLE's financial statements are consolidated into the financial statements of KLRU because KLRU has control over and an economic interest in these entities. All significant inter-company transactions and balances have been eliminated in the consolidation. KLRU and KNV/ACLE are collectively referred to as the Organization.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP") as defined by the Financial Accounting Standards Board Accounting Standards Codification.

Classification of Net Assets - The consolidated financial statements report information regarding the Organization's consolidated financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified as follows:

Unrestricted net assets **-** Net assets not subject to donor-imposed stipulations.

Temporarily restricted net assets **-** Net assets subject to donor-imposed stipulations that may or will be met by actions of the Organization and/or the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specific purposes.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Revenue that is restricted by the donor is reported as unrestricted if the restriction expires in the same reporting period in which the revenue is recognized. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

Use of Estimates - The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

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

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

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

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

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

Cash and Cash Equivalents - Cash equivalents are comprised of short-term money market instruments with original maturities of three months or less.

Investments - Investments are stated at market value based on quoted market prices. The net realized and unrealized gains or losses on investments are reflected in the consolidated statements of activities.

Accounts Receivable - Accounts receivable are recorded at the amount the Organization expects to collect on outstanding balances. The Organization has not recorded an allowance for uncollectible accounts receivables at September 30, 2013 or 2012 because management estimates all balances to be collectible.

Pledges Receivable - Management has determined that the pledges receivable are fully collectible; therefore, no allowance for uncollectible accounts is considered necessary at September 30, 2013 and 2012. All pledges receivable were pledged as collateral in connection with the amortizing term loan obtained on October 5, 2012 and described in more detail in Note 6.

Program Rights - Program rights are recorded at cost and amortized on a straight-line basis over the period of the license agreement, ranging from 1 to 3 years. Amortization of program rights will be $968,343, $568,002 and $242,475 for the years ending September 30, 2014, 2015, and 2016, respectively.

Property and Equipment - Property and equipment, except those which are received as donations, are recorded at cost. Donated assets are recorded at fair market value as of the date of donation. The Organization capitalizes property and equipment acquisitions over $1,000. Property and equipment are depreciated using the straight-line method over periods of 3 to 10 years.

Contributions - Contributions are recognized as revenues in the period unconditional promises to give are received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value and are reported as unrestricted revenue and net assets, unless subject to donor restrictions.

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

Production Costs and Revenue - Production costs incurred in connection with the Austin City Limits Television Series are recorded as prepaid expenses and amortized as the productions are broadcasted. Related production underwriting revenue is deferred and recognized when the broadcast occurs. All other production costs and related production underwriting revenue is recognized as expenses are incurred.

Programming Underwriting - Revenue from programming underwriting agreements is recognized as the underwriting spots are aired.

License Fees - License fees revenue is recognized based on contract terms with licensees.

Royalties - Royalty revenue is recorded in the period in which it is earned, except when the amount of revenue cannot be reasonably determined before it is received, in which case revenue is recognized when funds are received.

Advertising Costs - The Organization expenses advertising costs as incurred. Total advertising and promotions expense for the years ended September 30, 2013 and 2012, was $60,341 and $68,648, respectively.

Functional Allocation of Expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs benefited and supporting services based on estimates provided by management.

Summarized Comparative Totals - The consolidated statement of activities includes certain prior year summarized comparative information in total, but not by net asset class. In addition, the statement of functional expenses includes certain prior year summarized comparative information in total, but not by function. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended September 30, 2012, from which the summarized information was derived.

Federal Income Tax Status - KLRU is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the "Code"). The Internal Revenue Service has also recognized KLRU as a public charity under Section 509(a)(l) of the Internal Revenue Code, except with respect to any unrelated business income. The tax year ended September 30, 2010 and subsequent tax years remain subject to examination by the Internal Revenue Service.

KLRU New Ventures, Inc. and ACL Enterprises are not exempt organizations and are subject to federal income taxation. Income taxes are accounted for under the liability method whereby deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. Valuation allowances are established when considered necessary to reduce the net deferred tax assets to amounts which are more likely than not to be realized.

The Organization files all required tax returns in the U.S. federal jurisdiction. No provision for federal income taxes has been made in the accompanying consolidated financial statements.

3. CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Organization to credit risk consist of cash and cash equivalents, investments and receivables. The Organization places its cash and cash equivalents with a limited number of high quality financial institutions and may exceed the amount of insurance provided on such deposits. Management believes no significant risk exists with respect to cash and cash equivalents. Investments are exposed to various risks, such as interest rate market and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the near-term could materially affect the amounts reported in the statement of financial position. The Organization does not maintain collateral for its receivables and does not believe significant risk exists at September 30, 2013 and 2012.

4. INVESTMENTS

Investments are reported at fair value at September 30, 2013 as follows:

		Fair Value Measurements Using:		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market mutual funds	$ 293,507	$ 293,507	$ -	$ -
Federal government obligations	69,034	-	69,034	-
Corporate bonds	258,295	-	258,295	-
Municipal bonds	207,660	-	207,660	-
Mortgage pools - FHLMC	4,511	-	4,511	-
Corporate equities	1,538,573	1,538,573	-	-
Total Investments	$ 2,371,580	$ 1,832,080	$ 539,500	$ -

Investments are reported at fair value at September 30, 2012 as follows:

		Fair Value Measurements Using:		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market mutual funds	$ 90,397	$ 90,397	$ -	$ -
Federal government obligations	50,031	-	50,031	-
Corporate bonds	210,322	-	210,322	-
Municipal bonds	224,121	-	224,121	-
Mortgage pools - FHLMC	6,700	-	6,700	-
Corporate equities	1,310,357	1,310,357	-	-
Total Investments	$ 1,891,928	$ 1,400,754	$ 491,174	$ -

Net investment return consisted of the following for the years ended September 30:

	2013	2012
Dividend and interest income	$ 49,939	$ 39,198
Net unrealized (losses) gains on investments	(306,574)	189,789
Realized gains on investments	560,751	38,063
	$ 304,116	$ 267,050

5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at September 30:

	2013	2012
Studio broadcast equipment	$ 12,434,974	$ 12,550,629
Transmitter/antenna	1,905,363	1,744,617
Office and transportation equipment	483,115	453,791
Leasehold improvements	1,059,123	1,046,882
Construction in progress	-	207,406
Subtotal	15,882,575	16,003,325
Less accumulated depreciation	(9,657,896)	(8,810,639)
Total	$ 6,224,679	$ 7,192,686

Equipment purchased with Public Telecommunications Facilities Program grants, administered by the National Telecommunications and Information Administration ("NTIA"), has recorded liens identifying the Federal Government (Department of Commerce) as the priority secured creditor. Equipment subject to the NTIA liens amounted to $1,342,617 at September 30, 2013 and 2012. Of the equipment subject to the NTIA liens, $686,043, $331,193 and $325,381 will expire in September 2017, September 2019 and September 2020, respectively.

6. LINES OF CREDIT

The Organization had available a $750,000 revolving line of credit with a financial institution which expired on May 31, 2013. This line provides for interest at the bank's prime rate (3% at September 30, 2012). On June 5, 2013, the line of credit was renewed to extend its maturity date to June 30, 2014. This line provides for interest at the bank's prime rate (3% at September 30, 2013) and is collateralized by equipment. The outstanding balance at September 30, 2013 and 2012 was $275,012 and $24,227, respectively. This line of credit agreement contains a covenant that requires the loans to be used for working capital. Interest costs of approximately $8,000 and $9,000 were charged to expense in the years ended September 30, 2013 and 2012, respectively.

On September 30, 2010, the Organization entered into a $3,000,000 line of credit with a financial institution. The outstanding balance at September 30, 2012 was $2,000,000. The line provided for interest at the bank's prime rate (3% at September 30, 2012) and was collateralized by the capital campaign pledges receivable and the new studio equipment. Interest costs of approximately $90,000 were charged to expense in the year ended September 30, 2012. This line expired on September 30, 2012 and the outstanding balance was converted into an amortizing term loan on October 5, 2012. The term loan matures on September 30, 2015 and is secured by the Organization's equipment at the Moody Theater. Interest only installments were due monthly from October 31, 2012 thru December 31, 2012. Commencing January 31, 2013, principal installments of $25,000 and accrued unpaid interest are due monthly until the loan's maturity date. The outstanding balance of this loan as of September 30, 2013 was $1,625,000. Interest costs of approximately $67,000 were charged to expense in the year ended September 30, 2013.

7. ENDOWMENT FUND

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

The spending policy adopted by the Board is summarized as follows: after the Endowment Fund reaches $2,000,000, an annual distribution, not to exceed 5% of the three-year average of the Fund's total market value, may be made at the beginning of the fiscal year based on the worth of the corpus at the end of the preceding fiscal year, with the understanding that this spending rate plus inflation will not normally exceed the total return from investments.

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

Changes in Endowment Fund net assets were as follows for the year ended September 30, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 97,703	947,106	836,167	1,880,976
Contributions	18,213	2,886	78,822	99,921
Investment income	-	48,796	-	48,796
Management fees	-	(10,932)	-	(10,932)
Net realized and unrealized gain on endowments	-	250,629	-	250,629
Appropriations for expenditure	-	(72,000)	-	(72,000)
Endowment net assets, end of year	$ 115,916	1,166,485	914,989	2,197,390

Changes in Endowment Fund net assets were as follows for the year ended September 30, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 95,588	693,317	786,167	1,575,072
Contributions	125	-	50,000	50,125
Investment income	1,990	39,198	-	41,188
Management fees	-	(13,261)	-	(13,261)
Net realized and unrealized gain on endowments	-	227,852	-	227,852
Endowment net assets, end of year	$ 97,703	947,106	836,167	1,880,976

Endowment Fund net asset composition by type of fund as of September 30, 2013 consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	1,166,485	914,989	2,081,474
Board designated	115,916	-	-	115,916
Total funds	$ 115,916	1,166,485	914,989	2,197,390

Endowment Fund net asset composition by type of fund as of September 30, 2012 consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	947,106	836,167	1,783,273
Board designated	97,703	-	-	97,703
Total funds	$ 97,703	947,106	836,167	1,880,976

A description of amounts classified as permanently restricted net assets and temporarily restricted net assets (Endowment Fund only) is as follows as of September 30:

	2013	2012
Permanently Restricted Net Assets-		
The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by UPMIFA	$ 914,989	$ 836,167
Temporarily Restricted Net Assets-		
The portion of perpetual endowment funds subject to a restriction under UPMIFA-		
Without purpose restrictions	$ 1,166,485	$ 947,106

8. COMMUNITY SERVICE GRANT

The Corporation for Public Broadcasting ("CPB") is a private, nonprofit grant-making organization responsible for funding more than 1,000 television and radio stations. CPB distributes annual Community Service Grants ("CSG") to qualifying public telecommunications entities. The grants are approved by the U.S. Congress each year and could be reduced in the future. KLRU's CSG is reported in the accompanying financial statements in unrestricted net assets; however, certain guidelines must be satisfied in connection with application for and use of the funds to maintain eligibility and compliance requirements. These guidelines pertain to the use of funds, recordkeeping, audits, financial reporting, and licensee status with the Federal Communications Commission (the "FCC"). KLRU recognized revenue of $1,256,568 and $1,220,867 for the CSG awarded during the years ended September 30, 2013 and 2012, respectively.

9. IN-KIND SUPPORT AND CONTRIBUTED SERVICES

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

	2013	2012
Venue and parking	$ 848,400	$ 833,400
Production and programming services and use of technical equipment	587,663	306,884
Office space	473,431	473,431
Property and equipment	41,227	29,409
Legal services	36,327	73,055
	$ 1,987,048	$ 1,716,179

10. LEASE COMMITMENTS

The Organization leases its studio and office on a renewable, month-to-month basis and leases equipment consisting of a broadcasting tower, transmitter space and other office equipment under non-cancelable operating lease agreements which expire through fiscal year 2016. Future minimum operating lease payments are as follows for the years ended September 30:

2014	$ 376,468
2015	19,740
2016	18,300
Total minimum lease payments	$ 414,508

Total rental expense on all operating leases was $369,430 and $362,959 during the years ended September 30, 2013 and 2012, respectively.

11. RETIREMENT PLAN

The Organization provides a retirement plan for all employees with over one year of service. Employees can elect to make additional contributions to the plan through a deduction from their salary on a tax-deferred basis in accordance with Section 403(b) of the Code. The Organization contributes 3% of compensation to eligible employees. The Organization matches up to 3% of the additional tax-deferred contributions made by employees. The Organization's contributions to the retirement plan were approximately $135,000 and $117,000 for the years ended September 30, 2013 and 2012, respectively.

12. RELATED PARTY TRANSACTIONS

Contributions from board members were $257,003 and $543,130 during the years ended September 30, 2013 and 2012, respectively. There were $12,884 and $67,250 in pledges receivable from board members at September 30, 2013 and 2012, respectively.

13. SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through January 16, 2014 (the date the consolidated financial statements were available to be issued), and no events have occurred from the consolidated statement of financial position date through that date that would impact the consolidated financial statements.