North Texas Public Broadcasting, Inc.

Consolidated Financial Report
June 30, 2016

Contents

RSM US LLP

Independent Auditor's Report

Board of Directors
North Texas Public Broadcasting, Inc.
Dallas, Texas

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of North Texas Public Broadcasting, Inc. (the Corporation), which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of North Texas Public Broadcasting, Inc. as of June 30, 2016 and 2015, 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.

Report on Summarized Comparative Information
We have previously audited North Texas Public Broadcasting, Inc.'s June 30, 2015 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 2, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

RSM US LLP

Dallas, Texas
October 21, 2016

North Texas Public Broadcasting, Inc.

Consolidated Statements of Financial Position
June 30, 2016 and 2015

	2016	2015
Assets		
Cash and cash equivalents	$ 2,127,717	$ 2,313,040
Restricted cash	1,285,294	1,285,294
Membership contributions and underwriting receivable, net of allowance	3,239,097	3,130,604
Investments	19,057,984	19,775,169
Prepaid expenses and other assets	1,196,888	1,603,328
Property, plant and equipment, net	9,299,871	9,788,895
FCC broadcast license	18,250,276	18,250,276
Total assets	$ 54,457,127	$ 56,146,606
Liabilities and Net Assets		
Accounts payable and accrued expenses	$ 1,617,425	$ 1,443,142
Deferred revenue	145,323	172,571
Interest rate swaps	757,353	181,452
Notes payable	15,671,488	16,391,252
Other liabilities	653,331	787,103
Total liabilities	18,844,920	18,975,520
Commitments (Note 7)		
Net assets:		
Unrestricted	32,377,480	33,018,098
Temporarily restricted	2,234,727	3,152,988
Permanently restricted	1,000,000	1,000,000
Total net assets	35,612,207	37,171,086
Total liabilities and net assets	$ 54,457,127	$ 56,146,606

See notes to consolidated financial statements.

North Texas Public Broadcasting, Inc.

Consolidated Statements of Activities
Year Ended June 30, 2016
(With Summarized Financial Information For The Year Ended June 30, 2015)

	2016				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2015
Operating revenues:					
Membership contributions	$ 13,416,845	$ 64,030	-	$ 13,480,875	$ 15,093,606
Underwriting and trade	4,754,265	-	-	4,754,265	3,926,527
Community service grants	2,070,437	-	-	2,070,437	2,075,940
Contributions and grants for capital expenditures	-	-	-	-	271,916
Branding Contributions	226,150	140,185		366,335	-
Special events	270,877	-	-	270,877	198,590
In-kind contributions	449,257	-	-	449,257	342,378
Other support	129,500	-	-	129,500	516,082
Net assets released from restrictions	1,424,087	(1,424,087)	-	-	-
Total operating revenues	22,741,418	(1,219,872)	-	21,521,546	22,425,039
Operating expenses:					
Program services:					
Technical services	2,326,278	-	-	2,326,278	2,407,763
Television broadcasting	2,975,040	-	-	2,975,040	2,753,471
Television programming	97,944	-	-	97,944	164,051
Educational resources	41,697	-	-	41,697	5,409
Radio	3,943,357	-	-	3,943,357	3,660,898
Content services	3,975,532	-	-	3,975,532	3,468,845
	13,359,848	-	-	13,359,848	12,460,437
Support services:					
General and administrative	3,314,590	-	-	3,314,590	3,216,192
Corporate communications	835,139	-	-	835,139	450,747
	4,149,729	-	-	4,149,729	3,666,939
Fundraising costs:					
Membership development	2,851,496	-	-	2,851,496	2,952,806
Corporate development	1,277,827	-	-	1,277,827	1,195,248
Special events	51,941	-	-	51,941	49,579
	4,181,264	-	-	4,181,264	4,197,633
Depreciation and amortization	894,104	-	-	894,104	1,152,132
Total operating expenses	22,584,945	-	-	22,584,945	21,477,141
Change in net assets from operating activities	156,473	(1,219,872)	-	(1,063,399)	947,898
Nonoperating:					
Return on investments	(216,624)	(49,360)	-	(265,984)	383,266
Change in value of split-interest agreements		350,971	-	350,971	31,076
Loss on retirement of assets	(4,566)	-	-	(4,566)	(445,828)
Unrealized loss on interest rate swaps	(575,901)	-	-	(575,901)	(155,050)
Change in net assets from nonoperating activities	(797,091)	301,611	-	(495,480)	(186,536)
Change in net assets	(640,618)	(918,261)	-	(1,558,879)	761,362
Net assets:					
Beginning of year	33,018,098	3,152,988	1,000,000	37,171,086	36,409,724
End of year	$ 32,377,480	$ 2,234,727	$ 1,000,000	$ 35,612,207	$ 37,171,086

See notes to consolidated financial statements.

North Texas Public Broadcasting, Inc.

Consolidated Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Change in net assets	$ (1,558,879)	$ 761,362
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation of property, plant and equipment	867,954	1,125,982
Amortization of debt issuance costs	26,150	26,150
Loss on retirement of assets	4,566	464,378
Unrealized loss on investments	793,782	445,961
Net realized gain on investments	(105,820)	(315,002)
Change in value of split-interest agreements	(350,971)	(31,076)
Unrealized loss on interest rate swap liability	575,901	155,050
Dividends received from investments	(421,978)	(514,225)
Changes in operating assets and liabilities:		
Membership contributions and underwriting receivable	(108,493)	(319,323)
Prepaid expenses and other assets	731,261	(132,933)
Accounts payable and accrued expenses	174,283	99,362
Deferred revenue	(27,248)	31,120
Other liabilities	(3,964)	65,282
Net cash provided by operating activities	596,544	1,862,088
Cash flows from investing activities:		
Purchase of property, plant and equipment	(383,496)	(748,415)
Purchase of investments	(1,846,799)	-
Redemptions of investments	2,298,000	725,000
Net cash provided by (used in) investing activities	67,705	(23,415)
Cash flows from financing activities:		
Borrowings of notes payable	1,000,000	1,000,000
Repayment of notes payable	(1,719,764)	(1,696,899)
Payment of capital lease obligations	(129,808)	(129,808)
Net cash used in financing activities	(849,572)	(826,707)
Net (decrease) increase in cash and cash equivalents	(185,323)	1,011,966
Cash and cash equivalents:		
Beginning of year	2,313,040	1,301,074
End of year	$ 2,127,717	$ 2,313,040
Supplemental disclosure of cash flow information:		
Cash paid for taxes	$ 9,697	$ 14,347
Cash paid for interest	$ 596,241	$ 606,101
Noncash investing and financing activities:		
Acquisition of software and equipment through capital leases	$ -	$ 633,902

See notes to consolidated financial statements.

Note 1. Nature of Operations

North Texas Public Broadcasting, Inc. (the Corporation) is a nonprofit public media corporation providing broadcast services through its three licensed stations, KERA-TV Channel 13, KERA-90.1 FM, and KKXT-91.7 FM. These stations are the public television and radio stations which broadcast high-quality programs to viewers and listeners in Dallas, Fort Worth and other areas of North, East and West Texas, as well as parts of Oklahoma and Louisiana. KERA-TV Channel 13 is a member of the Public Broadcasting Service, American Public Television and National Educational Telecommunications Association. KERA-90.1 FM and KKXT-91.7 FM are members of National Public Radio and affiliates of Public Radio International. These financial statements also include the accounts of North Texas Public Broadcasting Foundation (the Foundation). The sole purpose of the Foundation is to support the activities of the Corporation.

Note 2. Summary of Significant Accounting Policies

Principles of consolidation: The accompanying consolidated financial statements of the Corporation include the accounts of the Corporation and the Foundation. All significant intercompany accounts and transactions have been eliminated.

Comparative financial statements: The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. 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 Corporation's consolidated financial statements for the year ended June 30, 2015, from which the summarized information was derived.

Use of estimates: The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the 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.

Basis of presentation: Net assets are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Unrestricted net assets: Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets: Net assets that are subject to donor-imposed stipulations that may or will be met by actions of the Corporation and/or the passage of time. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions, unless restrictions are met in the same year as the gift is received, in which case the related contributions are reported as unrestricted revenue.

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

Cash and cash equivalents: Cash and cash equivalents are comprised of cash and short-term investments with original maturities of three months or less. During the years ended June 30, 2016 and 2015, the Corporation periodically had cash deposits in excess of the FDIC insurable limit. The Corporation has not experienced any losses related to this concentration.

Note 2. Summary of Significant Accounting Policies (Continued)

Restricted cash: Restricted cash is comprised of a reserve fund established in accordance with debt covenants for the purpose of future debt payments (see Note 6).

Membership contributions and underwriting receivable: The Corporation's receivables are principally due from members, donors and sponsors and are included on the consolidated statements of financial position at amounts due net of an allowance for doubtful accounts. The Corporation periodically assesses collectability of outstanding receivables and determines its allowance for estimated losses based on factors such as: historical collection experience, age of the receivable, and current credit worthiness of the member, donor, or sponsor. The Corporation writes off receivables when they are deemed uncollectible by management.

Investments: Investments consist of mutual funds which are stated at fair market value based on quoted market prices. The net realized and unrealized gains (losses) on investments are reflected in the consolidated statements of activities.

Property, plant and equipment: Property, plant and equipment that are purchased for $1,000 or more are capitalized. Donated assets are recorded at fair market value at the date of donation. Property, plant and equipment are depreciated using the straight-line method over periods based on the estimated useful life within each asset category as shown below.

Description	Estimated Useful Life (In Years)
Land	N/A
Buildings	40
Building improvements	27
Signs	20
Tower, transmitter, antenna and equipment	15-16
Studio and video equipment	5-14
Vehicles	3
Furniture and fixtures	10
Computer hardware	6
Computer software	3
Master control equipment	8-14

FCC broadcast license: The Federal Communications Commission (FCC) broadcast license is an indefinite lived asset that is not amortized. However, the Corporation performs impairment testing on the FCC broadcast license annually or when an event triggering impairment may have occurred. Impairment is considered to exist if the fair value of the FCC broadcast license is less than the carrying amount. If impairment exists, the impairment loss is measured by the difference between the fair value and carrying amount. The Corporation's estimate of fair value is based upon, among other things, market conditions including comparative acquisitions of FCC broadcast licenses. Assumptions underlying fair value estimates are subject to significant risks and uncertainties. As of June 30, 2016 and 2015, management has determined that no impairment exists.

Interest rate swaps: The Corporation did not elect hedge accounting for these derivative instruments. The interest rate swaps are reported at fair value in the accompanying consolidated statements of financial position, with changes in fair value being reported in the consolidated statements of activities.

Note 2. Summary of Significant Accounting Policies (Continued)

Endowments: The Corporation's endowments consist of two funds established for the National Endowments for the Arts and educational purposes. Management has determined that the Corporation's permanently restricted net assets meet the definition of endowment funds under the Uniform Prudent Management of Institutional Funds Act (UPMIFA).

The Corporation's Board of Directors has interpreted UPMIFA as requiring 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. As a result of this interpretation, the Corporation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Corporation in a manner consistent with the standard of prudence prescribed in UPMIFA. In accordance with UPMIFA, the Corporation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the organization
- The investment policies of the organization

The Corporation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment. The Corporation's investment and spending policies work together to achieve this objective. The investment policy establishes an achievable return objective through diversification of asset classes. The current long-term return objective is to compare to a similarly weighted benchmark representing the returns of the S&P 500 Index, the Russell 2000 Index and the Intermediate Government/Corporate Index. The performance is also compared to the general inflation rate as measured by the Consumer Price Index.

The Corporation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk parameters.

Leases: The Corporation leases various types of equipment, primarily including tower and antennae space, to aid in providing broadcast services. The Corporation accounts for leases in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 840, Leases. The liability for leases determined to be capital leases are included in other liabilities on the accompanying consolidated statements of financial position.

Note 2. Summary of Significant Accounting Policies (Continued)

Fair value of financial instruments: The carrying amount of cash and cash equivalents, short term receivables, and accounts payable and accrued expenses approximate fair value due to the short term nature of these financial instruments. The present value of multiyear receivables is estimated based on discounted cash flows. Due to this discount, the carrying amount of the long-term receivables approximates fair value. Due to the variable interest rates on notes payable, which are comparable to current rates offered for similar debt instruments with similar terms, fair value approximates the reported value. Investments and interest rate swaps are stated at fair value as described in Note 3 and Note 6, respectively.

Revenue recognition: The primary sources of revenue for the Corporation are recognized as follows:

Membership contributions: The Corporation engages in fundraising campaigns by offering special programs, on-air and mail fundraising appeals. These appeals encourage supporters, both individuals and organizations, to provide financial support to the Corporation for enhancement of program offerings and other operating expenses. Management recognizes membership revenue under the accounting guidance for contributions rather than exchange transactions because membership is available to the general public and membership benefits including premiums to donors are negligible in comparison to the benefits provided to the general public. As a result of this treatment, membership revenue is recognized at the time of donation or when an unconditional promise to give is made by the member.

Underwriting and trade: Underwriting and trade revenue consists of sponsorships for programs and is treated as an exchange transaction. As a result of this treatment, revenue for program underwriting is recognized on a pro rata basis as it is earned for the period covered.

Community service grants: The grants received from the Corporation for Public Broadcasting (CPB) are recognized as revenue when received. 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 (Grants) to qualifying public telecommunications entities.

Contributions and grants for capital expenditures: During the year ended June 30, 2015 the Corporation received contributions and federal grants for the purpose of purchasing capital expenditures. Revenues were recognized as unrestricted as funds were appropriated for expenditure and all other conditions were met. No such contributions or grants were received during the year ended June 30, 2016.

Special events: Revenues relating to special events are recognized when an unconditional promise to give is made or in the period the contribution is received.

Branding contributions: The Corporation received cash contributions and in-kind contributions for the purpose of rebranding. Revenues are recognized as unrestricted as funds were appropriated for expenditure and all other conditions were met.

Individual in-kind contributions: The Corporation receives in-kind contributions consisting of donated legal services and membership premiums. 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. These donations are recorded at their estimated fair value.

Note 2. Summary of Significant Accounting Policies (Continued)

The Corporation also receives donated personal services of volunteers which approximated $79,000 and $90,000 for the years ended June 30, 2016 and 2015, respectively, and are not reflected in the accompanying consolidated statements of activities because they do not meet the criteria for recognition under accounting standards generally accepted in the United States of America. The estimated fair value of volunteer time is based on the hourly earnings (approximated from yearly values) of all production and non-supervisory workers on private non-farm payrolls average (based on yearly earnings provided by the Bureau of Labor Statistics) published by Independent Sector.

Functional allocation of expenses: The costs of providing the activities of the Corporation have been summarized on a functional basis in the consolidated statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Joint costs: Joint costs included in conducting joint activities that are not identifiable with a particular component of the activity are allocated between fundraising and program services, if the criteria for purpose, audience and content are met. The Corporation allocated approximately $497,000 and $504,000 between fundraising costs and program services for the years ended June 30, 2016 and 2015, respectively.

Income taxes: The Corporation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (the Code). The Internal Revenue Service has also recognized the Corporation as a public charity under Section 509(a)(1) of the Code. For the years ended June 30, 2016 and 2015, the Corporation recognized approximately $10,000 and $14,000 of income taxes for unrelated business income, respectively.

The FASB provides guidance for how uncertain tax positions should be recognized, measured, disclosed and presented in the financial statements. This requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Corporation’s tax return to determine whether the tax positions are “more-likely-than-not” of being sustained “when challenged” or “when examined” by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax benefit or expense and liability in the current year. Management has determined that there are no material uncertain income tax positions.

Recent accounting pronouncement: The following recently issued accounting standards are not yet effective; the Corporation is assessing the impact these standards will have on its consolidated financial statements as well as the period in which adoption is expected to occur:

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The update (a) reduces the net asset classification from three to two categories: with donor restrictions and without donor restrictions, with expanded disclosures about the nature and amount of any donor restrictions. (b) There will be enhanced required disclosures for underwater endowments. (c) The placed-in-service approach will be required for determining when restrictions are met for all capital gifts, eliminating the over-time option for expirations of capital restrictions. (d) Additional disclosures, both qualitative and quantitative, will be required to communicate information useful in assessing liquidity within one year of the balance sheet date. This update will be effective for the Corporation for fiscal years beginning after December 15, 2017.

Note 2. Summary of Significant Accounting Policies (Continued)

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The update will require lessees to recognize the following for all leases (with the exception of short term leases) at the commencement date: (a) a lease liability, which is a lessee‘s obligation to make lease payments arising from a lease, measured on a discounted basis; and (b) a right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term. This update will be effective for the Corporation for fiscal years beginning after December 15, 2019. Early application is permitted upon issuance. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach.

In April 2015, the FASB issued ASU 2015-03, *Interest—Imputation of Interest (Subtopic 835-30)*, as part of the initiative to reduce complexity in accounting standards. The update requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. This update will be effective for fiscal years beginning after December 15, 2015. Early adoption is permitted for financial statements that have not been previously issued.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which supersedes most existing revenue recognition guidance under Generally Accepted Accounting Principles (US GAAP). The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP. On adoption either of the following transition methods can be used: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). The original adoption date of the standard was deferred by the FASB and private organizations will now have to apply the new revenue standard to annual reporting periods beginning after December 15, 2018.

There are no other recently issued accounting standards that apply to the Corporation or that are expected to have a material impact on the Corporation’s consolidated financial statements.

Reclassifications: Certain amounts previously reported have been reclassified to conform to the presentation in these financial statements. These reclassifications did not affect previously reported changes in net assets.

Subsequent event review: In preparing these consolidated financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through October 21, 2016, the date on which the financial statements were available to be issued.

Note 3. Investments and Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Corporation utilizes valuation techniques to maximize the use of observable inputs and minimize the use of unobservable inputs. Inputs are broadly defined as assumptions market participants would use in pricing an asset or liability. Assets and liabilities recorded at fair value are categorized within the fair value hierarchy based upon the level of judgment associated with the inputs used to measure their value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described below:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that the Corporation has the ability to access at the measurement date. The quoted price for these investments is not adjusted, even in situations where the Corporation holds a large position and a sale could reasonably be expected to impact the quoted price. The types of investments included in Level 1 include listed equities and listed derivatives.

Level 2: Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly, and the fair value is determined through the use of models or other valuation methodologies. Investments that are generally included in this category include corporate bonds and loans, less liquid and restricted equity securities, certain over-the-counter derivatives, and certain general and limited partnership and membership interests in funds that calculate net asset value per share, or its equivalent. A significant adjustment to a Level 2 input could result in the Level 2 measurement becoming a Level 3 measurement.

Level 3: Inputs that are unobservable for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. The inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimation. Investments that are included in this category generally include equity and debt positions in private companies and certain general and limited partnership interests in corporate private equity and real estate funds, debt funds, hedge funds, and funds of funds.

Note 3. Investments and Fair Value Measurements (Continued)

The Corporation assesses the levels of the investments at each measurement date, and transfers between levels are recognized on the actual date of the event or change in circumstances that caused the transfer in accordance with the Corporation's accounting policy regarding the recognition of transfers between levels of the fair value hierarchy. For the years ended June 30, 2016 and 2015, there were no transfers among Levels 1, 2 and 3.

The inputs or methodology used for valuing financial instruments are not necessarily an indication of the risks associated with investing in those instruments. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term could affect investment balances and the amounts reported in the financial statements.

A description of the valuation techniques applied to the Corporation's major categories of assets measured at fair value on a recurring basis follows:

- **Mutual funds:** Securities traded on a national securities exchange (or reported on the NASDAQ national market) are stated at the last reported sales price on the day of valuation. To the extent these securities are actively traded and valuation adjustments are not applied, they are categorized in Level 1 of the fair value hierarchy.

- **Split-interest agreements:** The Corporation holds a partial interest in two split-interest agreements, included in prepaid expenses and other assets on the accompanying consolidated statements of financial position. Annually, the Corporation receives broker statements from the trustee listing out the current market value of the trusts' assets. The trusts' assets are invested in a variety of investments including securities traded on a national securities exchange, fixed income securities, and other investments. The present value of these split-interest agreements is determined using long-term treasury bill rates, the life expectancy of the donors and the percent of each trust that was donated to the Corporation.

- **Interest rate swaps:** See description of valuation technique at Note 6.

During the year ended June 30, 2016, there were no changes in valuation methodologies.

Note 3. Investments and Fair Value Measurements (Continued)

The following table represents assets and liabilities reported on the consolidated statements of financial position at their fair value as of June 30, 2016 and 2015 by level within the fair value measurement hierarchy:

		Fair Value Measurements at Reporting Date Using		
	Assets (Liabilities) Measured at Fair Value June 30	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2016:				
Measured on a recurring basis:				
Assets:				
Mutual funds:				
Intermediate bond institutional fund	$ 2,146,527	$ 2,146,527	$ -	$ -
All asset equity institutional fund	1,026,531	1,026,531	-	-
All world excluding U.S. equity fund	3,330,867	3,330,867	-	-
Stock market index equity institutional fund	9,647,108	9,647,108	-	-
Advantage Absolute Return fund	1,413,058	1,413,058	-	-
Alternative Multi-Strategy	752,127	752,127	-	-
Alternative Strategy	741,766	741,766	-	-
	19,057,984	19,057,984	-	-
Split-interest agreements	347,967	-	-	347,967
Liabilities:				
Interest rate swaps	(757,353)	-	(757,353)	-
2015:				
Measured on a recurring basis:				
Assets:				
Mutual funds:				
Intermediate bond institutional fund	2,054,053	2,054,053	-	-
All asset equity institutional fund	2,129,305	2,129,305	-	-
All world excluding U.S. equity fund	3,675,590	3,675,590	-	-
Stock market index equity institutional fund	9,907,075	9,907,075	-	-
Advantage Absolute Return fund	2,009,146	2,009,146	-	-
	19,775,169	19,775,169	-	-
Split-interest agreements	602,996	-	-	602,996
Liabilities:				
Interest rate swaps	(181,452)	-	(181,452)	-

Note 3. Investments and Fair Value Measurements (Continued)

The changes in Level 3 assets measured at fair value on a recurring basis are summarized as follows:

	Split-interest Agreements
Balance, June 30, 2014	$ 571,920
Change in value of split-interest agreements	31,076
Balance, June 30, 2015	602,996
Change in value of split-interest agreements	350,971
Partial liquidation of split-interest agreement	(606,000)
Balance, June 30, 2016	$ 347,967
Net unrealized losses attributable to Level 3 assets held at June 30, 2015	$ (9,715)
Net unrealized gains attributable to Level 3 assets held at June 30, 2016	$ 341,256

The following summarizes investment return for the years ended June 30:

	2016	2015
Dividend and interest income	$ 421,978	$ 514,225
Net realized gain on investment	105,820	315,002
Net unrealized (loss) on investments	(793,782)	(445,961)
	$ (265,984)	$ 383,266

Note 4. Membership Contributions and Underwriting Receivable

Membership contributions and underwriting receivable consists of the following unconditional promises to give at June 30:

	2016	2015
Membership contributions	$ 3,313,398	$ 3,123,063
Program underwriting	587,511	617,786
	3,900,909	3,740,849
Allowance for doubtful accounts	(618,874)	(562,593)
Discount to present value	(42,938)	(47,652)
Membership contributions and underwriting receivable, net	$ 3,239,097	$ 3,130,604

Note 4. Membership Contributions and Underwriting Receivable (Continued)

Membership contributions and underwriting receivables are generally due within twelve months. Included in membership contributions as of June 30, 2016, are multiyear receivables with expected future cash receipts as follows:

Years ending June 30:	
2017	$ 648,495
2018	114,963
2019	15,000
	778,458
Discount to present value	(42,938)
Multiyear membership contributions receivable, net	$ 735,520

Note 5. Property, Plant and Equipment

Property, plant and equipment consist of the following at June 30:

	2016	2015
Building and improvements	$ 7,716,389	$ 7,672,109
Studio and transmission equipment, including $196,220 of capital leases at June 30, 2016 and 2015	8,144,250	8,017,400
Data processing equipment, including $754,297 of capital leases at June 30, 2016 and 2015	1,846,210	1,677,154
Furniture and fixtures	497,709	463,757
	18,204,558	17,830,420
Less accumulated depreciation	(9,386,829)	(8,523,667)
	8,817,729	9,306,753
Land	482,142	482,142
	$ 9,299,871	$ 9,788,895

The accumulated amortization for property and equipment under capital leases for the years ended June 30, 2016 and 2015 was $195,462 and $155,254, respectively.

Note 6. Notes Payable, Pledged Assets and Interest Rate Swaps

At June 30, 2016 and 2015, the Corporation had total outstanding notes payable of $15,671,488 and $16,391,252, respectively, with a commercial bank consisting of a tax-exempt note in the amount of $8,601,888 and $9,012,924 and a taxable note in the amount of $7,069,600 and $7,378,328, respectively. Escalating principal and interest payments are due in arrears on the first of the month through the maturity date of June 1, 2032 with all outstanding principal and interest due at maturity or on the put date of June 1, 2022. Principal payments commenced on July 1, 2013. These notes are collateralized by substantially all assets.

Note 6. Notes Payable, Pledged Assets and Interest Rate Swaps (Continued)

In conjunction with entering into these notes, the Corporation entered into two interest rate swap agreements with the bank with an effective date of May 30, 2012 to convert their contractual variable rate payments to fixed rate payments in order to minimize significant, unanticipated earnings fluctuations caused by interest rate volatility. The termination date of these swap agreements is June 1, 2022. The initial notional amount for the swap agreement related to the tax-exempt note and taxable note is $9,800,000 and $7,961,501, respectively, with the notional amount being adjusted on each payment date. The contractual variable rate of the tax-exempt note is the applicable London Interbank Offered Rate (LIBOR) of USD-LIBOR-BBA with a designated maturity of one month multiplied by sixty-five percent (65%) plus 160 basis points (1.60%) and the fixed rate paid under the interest rate swap agreement is 3.03%. The contractual variable rate of the taxable note is USD-LIBOR-BBA rate with a designated maturity of one month plus 200 basis points (2.00%) and the fixed rate paid under the interest rate swap agreement is 3.98%.

The fair value of the interest rate swaps was a liability of $757,353 and $181,452 as of June 30, 2016 and 2015, respectively, which are reflected in the accompanying consolidated statements of financial position, with the related movement in fair value reflected as unrealized gain (loss) on interest rate swaps in the accompanying consolidated statements of activity. The Corporation uses an independent valuation firm to estimate fair value of interest rate swap derivatives through the use of valuation models with observable market data inputs. This is a Level 2 measurement within the fair value measurement hierarchy as defined in Note 3.

Effective May 30, 2012, the Corporation obtained a $1,000,000 line of credit with a commercial bank that has a variable interest rate of USD-LIBOR-BBA with a designated maturity of one month plus 200 basis points (2.00%). Interest payments are due in arrears on the first of the month through maturity with outstanding principal and interest due in full upon maturity. On November 13, 2014 the line of credit was amended to extend the maturity date to November 13, 2016. As of June 30, 2016 and 2015, there was no amount outstanding on this line of credit.

Future maturities of long-term debt are as follows at June 30, 2016:

Years ending June 30:	
2017	$ 746,500
2018	772,659
2019	799,759
2020	826,594
2021	856,851
Thereafter	11,669,125
	$ 15,671,488

The Corporation's long-term debt agreements require compliance with certain financial and nonfinancial covenants.

Interest expense was approximately $555,000 and $576,000 for the years ended June 30, 2016 and 2015, respectively. The amounts are included in unrestricted general and administrative expenses in the consolidated statements of activities.

Note 7. Commitments and Contingencies

Lease commitments: The Corporation leases broadcasting tower space for the transmission of its radio and television signals, as well as copiers and postage machines under noncancelable operating leases. The Corporation also has noncancelable leases classified as capital leases (see Note 5).

Future minimum rental commitments under noncancelable operating and capital leases at June 30, 2016 are as follows:

	Capital Leases	Operating Leases
Years ending June 30:		
2017	$ 163,879	$ 446,785
2018	155,112	438,796
2019	134,627	434,394
2020	78,533	418,561
2021	-	421,496
Thereafter	-	4,455,170
Total minimum lease payments	532,151	$ 6,615,202
Less amount representing interest	(53,555)	
Net minimum capital lease payments	$ 478,596	

Total rental expense was approximately $447,000 and $412,000 for the years ended June 30, 2016 and 2015, respectively.

Litigation: The Corporation may, from time to time, be involved in certain legal matters arising from normal business activities. Management believes that potential liability that may arise from these matters will not materially affect the Corporation's financial position or results of operation.

Note 8. Benefit Plans

All employees can contribute to the Corporation's 403(b) plan, the North Texas Public Broadcasting Savings and Retirement Plan. The Corporation makes discretionary contributions annually of up to 4% of the wages of eligible employees. The Corporation's contributions for the years ended June 30, 2016 and 2015 were approximately $206,000 and $248,000, respectively.

Note 9. Restrictions on Net Assets

Permanently restricted net assets are restricted for the following purposes as of June 30:

	2016	2015
National Endowments for the Arts cash reserve endowment	$ 750,000	$ 750,000
Educational programming	250,000	250,000
	$ 1,000,000	$ 1,000,000

Note 9. Restrictions on Net Assets (Continued)

The changes in endowment assets for the years ended June 30, 2016 and 2015 are summarized below:

	Unrestricted	Temporarily Restricted	Permanently Restricted
Endowment assets at June 30, 2014	$ -	$ 331,659	$ 1,000,000
Net appreciation on endowment assets	-	(33,517)	-
Dividend and interest income	33,756	-	-
Endowment assets appropriated for spending	(33,756)	-	-
Endowment assets at June 30, 2015	-	298,142	1,000,000
Net appreciation on endowment assets	-	(49,360)	-
Dividend and interest income	27,650	-	-
Endowment assets appropriated for spending	(27,650)	-	-
Endowment assets at June 30, 2016	$ -	$ 248,782	$ 1,000,000

Temporarily restricted net assets are restricted for the following purposes as of June 30:

	2016	2015
Split-interest agreements	$ 347,967	$ 602,996
Net appreciation on endowment assets	248,782	298,144
Pledges for future operations	1,607,023	2,188,932
Grants received for future equipment purchases	30,955	62,916
	$ 2,234,727	$ 3,152,988

Note 10. Functional Allocation of Expenses

The Corporation excludes depreciation and amortization from functional expense categories in the consolidated statements of activities for the fiscal years ended June 30, 2016 and 2015. Those expenses would be allocated to the functional areas as follows:

	2016	2015
Program services	$ 688,460	$ 887,141
Support services	134,116	172,820
Fundraising costs	71,528	92,171
	$ 894,104	$ 1,152,132