MONTGOMERY COSCIA GREILICH LLP

NORTH TEXAS PUBLIC BROADCASTING, INC.

CONSOLIDATED FINANCIAL STATEMENTS

(WITH INDEPENDENT AUDITOR'S REPORT THEREON)

JUNE 30, 2018 AND 2017

NORTH TEXAS PUBLIC BROADCASTING, INC.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
North Texas Public Broadcasting, Inc.

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, 2018 and 2017, and the related consolidated statements of activities and changes in net assets 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 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 audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of North Texas Public Broadcasting, Inc. as of June 30, 2018 and 2017, and the results of their activities and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Montgomery Coscia Greilich LLP

MONTGOMERY COSCIA GREILICH LLP
Plano, Texas
October 30, 2018

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

NORTH TEXAS PUBLIC BROADCASTING, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2018 AND 2017

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 4,070,395	$ 2,616,961
Restricted cash	1,285,294	1,285,294
Membership contribution, grant, and underwriting receivable, net	4,215,907	3,565,871
Investments	22,263,581	21,260,055
Prepaid expenses and other assets	789,212	959,409
Total current assets	32,624,389	29,687,590
Interest rate swaps	233,988	-
Property and equipment, net	7,830,784	8,183,085
FCC Broadcast License	18,250,276	18,250,276
TOTAL ASSETS	$ 58,939,437	$ 56,120,951
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 1,589,055	$ 1,750,445
Deferred revenue	146,568	131,627
Interest rate swaps	-	139,233
Current portion of capital lease obligations	125,181	137,697
Current portion of notes payable	799,759	746,509
Total current liabilities	2,660,563	2,905,511
Capital lease obligations, net of current portion	76,858	202,039
Notes payable, net of current portion	13,250,149	14,049,908
Other long-term liabilities	233,259	210,523
TOTAL LIABILITIES	16,220,829	17,367,981
NET ASSETS		
Unrestricted	39,689,192	35,538,583
Temporarily restricted	2,029,416	2,214,387
Permanently restricted	1,000,000	1,000,000
Total net assets	42,718,608	38,752,970
TOTAL LIABILITIES AND NET ASSETS	$ 58,939,437	$ 56,120,951

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

NORTH TEXAS PUBLIC BROADCASTING, INC.

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018				2017
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
OPERATING REVENUES:					
Membership contributions	$ 16,376,773	$ 1,267,469	$ -	$ 17,644,242	$ 16,388,885
Underwriting and trade	5,770,828	-	-	5,770,828	5,163,014
Community service grants	2,020,202	-	-	2,020,202	2,007,091
Contribution and grants for capital expenditures	20,000	-	-	20,000	132,045
Special events	376,291	-	-	376,291	380,764
In-kind contributions	571,852	-	-	571,852	500,999
Other support	173,567	-	-	173,567	140,209
Net assets released from restrictions	1,411,522	(1,411,522)	-	-	-
Total operating revenues	**26,721,035**	**(144,053)**	**-**	**26,576,982**	**24,713,007**
OPERATING EXPENSES:					
Program services:					
Technical services	2,261,523	-	-	2,261,523	2,253,546
Television broadcasting	2,781,813	-	-	2,781,813	2,886,688
Television programming	107,156	-	-	107,156	89,824
Educational resources	113,626	-	-	113,626	103,772
Radio	4,492,572	-	-	4,492,572	4,361,330
Content services	4,932,097	-	-	4,932,097	4,861,933
Total program services	14,688,787	-	-	14,688,787	14,557,093
Support services:					
General and administrative	3,168,458	-	-	3,168,458	2,751,004
Corporate communications	909,545	-	-	909,545	826,234
Total support services	4,078,003	-	-	4,078,003	3,577,238
Fundraising costs:					
Membership development	3,765,685	-	-	3,765,685	3,677,048
Corporate development	1,438,287	-	-	1,438,287	1,389,872
Special events	48,190	-	-	48,190	46,587
Total fundraising costs	5,252,162	-	-	5,252,162	5,113,507
Depreciation and amortization	917,808	-	-	917,808	846,689
Total operating expenses	**24,936,760**	**-**		**24,936,760**	**24,094,527**
Change in net assets from operating activities	**1,784,275**	**(144,053)**	**-**	**1,640,222**	**618,480**
NON-OPERATING:					
Return on investments	1,874,464	(35,939)	-	1,838,525	2,812,282
Gain on settlement	125,000	-	-	125,000	-
Change in value of split-interest agreements	-	(4,979)	-	(4,979)	78
Loss on retirement assets	(6,351)	-	-	(6,351)	(908,197)
Unrealized gain on interest rate swaps	373,221	-	-	373,221	618,120
Change in net assets from non-operating activities	**2,366,334**	**(40,918)**	**-**	**2,325,416**	**2,522,283**
CHANGE IN NET ASSETS	**4,150,609**	**(184,971)**	**-**	**3,965,638**	**3,140,763**
NET ASSETS, BEGINNING OF YEAR	**35,538,583**	**2,214,387**	**1,000,000**	**38,752,970**	**35,612,207**
NET ASSETS, END OF YEAR	**$ 39,689,192**	**$ 2,029,416**	**$ 1,000,000**	**$ 42,718,608**	**$ 38,752,970**

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

NORTH TEXAS PUBLIC BROADCASTING, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	$ 3,965,638	$ 3,140,763
Adjustments to reconcile net assets to cash provided by operating activities:		
Depreciation of property and equipment	891,658	820,539
Amortization of debt issuance costs	26,150	26,150
Loss on retirement of assets	(6,351)	908,196
Net unrealized (gain) loss on investments	129,510	(2,098,342)
Net realized gain on investments	(1,446,775)	(268,688)
Change in value of split-interest agreements	4,979	(78)
Unrealized gain on interest rate swap liability	(373,221)	(618,120)
Dividend income reinvested	(521,260)	(445,252)
Changes in operating assets and liabilities:		
(Increase) decrease in assets		
Membership contributions and underwriting receivable	(650,036)	(326,774)
Prepaid expenses and other assets	165,218	82,836
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	(161,390)	133,020
Deferred revenue	14,941	(13,696)
Other liabilities	22,736	35,787
Net cash provided by operating activities	**2,061,797**	**1,376,341**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(533,006)	(611,949)
Purchases of investments	(2,050,001)	(1,641,000)
Proceeds from the sale of investments	2,885,000	2,251,211
Net cash provided by (used in) investing activities	**301,993**	**(1,738)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings of notes payable	1,000,000	1,000,000
Repayment of notes payable	(1,772,659)	(1,746,500)
Payment of capital lease obligations	(137,697)	(138,859)
Net cash used in financing activities	**(910,356)**	**(885,359)**
Net increase in cash and cash equivalents	1,453,434	489,244
Cash and cash equivalents, beginning of year	2,616,961	2,127,717
Cash and cash equivalents, end of year	**$ 4,070,395**	**$ 2,616,961**
SUPPLEMENTAL INFORMATION:		
Cash paid for taxes	$ 7,418	$ 9,311
Cash paid for interest	$ 527,976	$ 559,869

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

1 – NATURE OF OPERATIONS

North Texas Public Broadcasting, Inc. (the "Corporation") is a nonprofit media corporation providing broadcast services through its three licensed stations, KERA-TV, KERA-90.1 FM, and KKXT-97.7 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 Education Telecommunications Association. KERA-90.1 FM and KKXT-91.7 are members of National Public Radio and affiliates of Public Radio International.

These consolidated 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.

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 presentation in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Accordingly, such information should be read in conjunction with the Corporation's consolidated financial statements for the year ended June 30, 2017, from which the summarized information was derived.

USE OF ESTIMATES

The preparation of consolidated financial statements in conformity with U.S. GAAP 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.

2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

NET ASSET ACCOUNTING

As a nonprofit organization, the Corporation maintains its records on a fund accounting basis in order to observe the limitations and restrictions placed on the use of its resources. This is the procedure by which net assets are classified for various accounting and reporting purposes into self-balancing accounts. Those funds are further classified into net asset groupings in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958-205, as follows:

Unrestricted Net Assets – Net assets that are not restricted by donor-imposed stipulations.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that may or will be met, either by the actions of the Corporation and/or the passage of time. When a 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 subject to donor-imposed stipulations that will be maintained permanently by the Corporation. Generally, the donors of these assets permit the Corporation to use all or part of the income earned on any related investments for general or specific purposes.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts for cash, restricted cash, membership contributions and underwriting receivable, and accounts payable and accrued expenses approximate fair value due to the short-term nature of those instruments. The present value of multi-year 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.

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, 2018 and 2017, the Corporation periodically had cash deposits in excess of the FDIC insurable limit. The Corporation has not experienced any losses related to this concentration.

RESTRICTED CASH

Restricted cash is comprised of a reserve fund established in accordance with debt covenants for the purpose of future debt payments as described in Note 6.

2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

MEMBERSHIP CONTRIBUTIONS AND UNDERWRITING RECEIVABLE

The contributions are principally due from members, donors and sponsors and are included in the consolidated statements of financial position at amounts due net of an allowance for doubtful accounts. The Corporation periodically assesses the collectability of outstanding receivables and determines the 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 of registered investment companies, 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 AND EQUIPMENT

Property and equipment are stated at historical cost. Expenditures that substantially improve or extend the useful life of property are capitalized, and routine maintenance and repair costs are expensed as incurred. Property and equipment are capitalized if they have individual costs of at least $1,000 and useful lives of over a year. Depreciation is calculated using the straight-line method over the established useful lives of the individual assets as follows:

Description	Estimated Useful Life (Years)
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

LONG-LIVED ASSETS

The Corporation reviews long-lived assets for impairment when events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Assets are grouped at the lowest levels of identifiable cash flows that are independent of cash flows of other assets. In such cases, if the future undiscounted cash flows of the underlying assets are less than the carrying amount, the carrying amount will be adjusted for impairment to a level commensurate with a discounted cash flow analysis or its determinable fair value. There were impairment charges of approximately $6,000 and $898,000 for the years ended June 30, 2018 and 2017, respectively, in conjunction with the abandonment of a software implementation project.

2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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 that may trigger an impairment has 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 market conditions, including comparative acquisitions of FCC broadcast licenses. Assumptions underlying fair value estimates are subject to significant risks and uncertainties. Management has determined that no impairment related to the FCC broadcast license exists as of June 30, 2018 and 2017.

INTEREST RATE SWAPS

The Corporation did not elect hedge accounting for 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.

ENDOWMENTS

The Corporation's endowments consist of two funds established for the National Endowment for the Arts and educational purposes. Management has determined 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 absent explicit donor stipulations to the contrary. As a result, the Corporation classifies (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 as permanently restricted net assets. The remaining portion of the donor-restricted endowment fund that is not classified as 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 determining whether 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

2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

ENDOWMENTS, CONTINUED

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 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 equipment, including tower and antennae space, to provide broadcast services. The Corporation accounts for leases in accordance with *FASB ASC 840, Leases*.

REVENUE RECOGNITION

The primary sources of revenue are recognized as follows:

Membership Contributions – The Corporation holds fundraising campaigns through special programs and on-air and mail fundraising appeals to encourage supporters, both individuals and organizations, to enhance program offerings and other operating expenses through financial support. Because membership is available to the general public and membership benefits, including premiums to donors are negligible, the Corporation recognizes membership contributions under the accounting guidance for contributions rather than as exchange transactions. As a result, 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 program sponsorships and is treated as an exchange transaction. As a result, revenue for program underwriting is recognized on a pro rata basis as it is earned during the period covered.

Community Service Grants – The Corporation for Public Broadcasting (“CPB”), a private nonprofit organization, distributes annual Community Service Grants to more than 1,000 qualifying public telecommunications entities through grants. Grants received from CPB are recognized as revenue when received.

Contributions and Grants for Capital Expenditures – During the years ended June 30, 2018 and 2017, the Corporation received contributions and federal grants for capital expenditures purposes. As funds are appropriated for expenditures and all other grant and contribution conditions were met in the same fiscal year, revenues are recognized as unrestricted.

Special Events – Special events revenue is recognized at the time of donation or when an unconditional promise to give is made.

2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

REVENUE RECOGNITION, CONTINUED

In-kind Contributions – The Corporation receives in-kind contributions, consisting of donated legal service and membership premiums. Contributions of services are recognized at their estimated fair value if donated services received create or enhance nonfinancial assets or are provided by individuals possessing specialized skills that would typically be purchased if not provided by donation.

The Corporation also receives donated services from volunteers which approximated $99,000 and $117,000 for the years ended June 30, 2018 and 2017, respectively, based on the hourly volunteer rate published by the Independent Sector. As these donated services do not meet the criteria for recognition under U.S. GAAP, their approximated values are not reflected in the accompanying consolidated statements of activities.

FUNCTIONAL ALLOCATION OF EXPENSES

The costs incurred by 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 benefitted.

JOINT COSTS

Costs included while conducting joint activities that are not identified with a specific component of activity are allocated between fundraising and program services, if the criteria for purpose, audience and content were met. The Corporation allocated approximately $586,000 and $552,000 between fundraising costs and program services for the years ended June 30, 2018 and 2017, respectively.

INCOME TAXES

The Corporation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Internal Revenue Service has also recognized the Corporation as a public charity under section 509(a)(1) of the Code. The Corporation recognized approximately $7,000 and $9,000 of income taxes for unrelated business income for the years ended June 30, 2018 and 2017, 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 while 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 there are no material uncertain income tax positions.

2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

RECENT ACCOUNTING PRONOUNCEMENTS

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.
>
> 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.

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 prior year amounts have been reclassified for consistency with the current period presentation in these financial statements. These reclassifications had no effect on the reported results of activities.

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 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.

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, 2018 and 2017, 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.

3 – INVESTMENTS AND FAIR VALUE MEASUREMENTS, CONTINUED

A description of the valuation techniques applied to the Corporation's major categories of assets measured at fair value on a recurring basis as 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 a split-interest agreement, 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.

Interest Rate Swaps: See description of the valuation technique at Note 6.

During the year ended June 30, 2018, there were no changes in valuation methodologies.

The following table represents assets and liabilities reported on the consolidated statements of financial position at their fair values as of June 30, 2018 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)
Measured on a recurring basis:				
Assets:				
Investments:				
Intermediate bond institutional fund	$ 2,608,626	$ 2,608,626	$ -	$ -
All asset equity institutional fund	1,415,946	1,415,946	-	-
All world excuding U.S. equity fund	6,372,410	6,372,410	-	-
Stock market index equity institutional fund	9,557,310	9,557,310	-	-
Alternative Multi-Strategy	1,166,315	1,166,315	-	-
Alternative Strategy	1,142,974	1,142,974	-	-
	22,263,581	22,263,581		
Prepaid expenses and other assets:				
Split-interest agreement	87,140	-	-	87,140
Interest rate swaps	233,988	-	233,988	-

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 values as of June 30, 2017 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)
Measured on a recurring basis:				
Assets:				
Investments:				
Intermediate bond institutional fund	$ 2,154,778	$ 2,154,778	$ -	$ -
All asset equity institutional fund	1,358,299	1,358,299	-	-
All world excuding U.S. equity fund	4,467,287	4,467,287	-	-
Stock market index equity institutional fund	11,023,045	11,023,045	-	-
Alternative Multi-Strategy	1,122,307	1,122,307	-	-
Alternative Strategy	1,134,339	1,134,339	-	-
	21,260,055	21,260,055		
Prepaid expenses and other assets:				
Split-interest agreements	92,119	-	-	92,119
Liabilities:				
Interest rate swaps	(139,233)	-	(139,233)	-

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

	Split-interest Agreements
Balance, June 30, 2016	$ 347,967
Change in value of split-interest agreements	78
Partial liquidation of split-interest agreement	(255,926)
Balance, June 30, 2017	92,119
Change in value of split-interest agreements	(4,979)
Balance, June 30, 2018	$ 87,140

3 – INVESTMENTS AND FAIR VALUE MEASUREMENTS, CONTINUED

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

	2018	2017
Dividend and interest income	$ 521,260	$ 445,252
Net realized gain on investment	1,446,775	268,688
Net unrealized gain (loss) on investments	(129,510)	2,098,342
	$ 1,838,525	$ 2,812,282

4 – MEMBERSHIP CONTRIBUTIONS, GRANTS, AND UNDERWRITING RECEIVABLE

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

	2018	2017
Membership contributions	$ 3,721,698	$ 3,072,619
Program underwriting	958,960	847,959
Grants	399,962	367,960
	5,080,620	4,288,538
Allowance for doubtful accounts	(839,093)	(696,128)
Discount to present value	(25,620)	(26,539)
Membership contributions, grants, and underwriting receivable, net	$ 4,215,907	$ 3,565,871

Membership contributions and underwriting receivables are generally due within twelve months. Included in membership contributions as of June 30, 2018, are multiyear receivables with expected future cash receipts as follows:

Years ending June 30:	
2019	$ 319,962
2020	80,000
	399,962
Discount to present value	(25,620)
Multiyear membership contributions receivable, net	$ 374,342

5 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	2018	2017
Land	$ 482,142	$ 482,142
Buildings and improvements	7,830,878	7,812,502
Studio and transmission equipment, including $196,220 of capital leases at June 30, 2018 and 2017	8,339,659	8,075,395
Data processing equipment, including $754,297 of capital leases at June 30, 2018 and 2017	1,725,841	1,477,674
Furniture and fixtures	528,067	519,517
	18,906,587	18,367,230
Less accumulated depreciation	(11,075,803)	(10,184,145)
	$ 7,830,784	$ 8,183,085

The accumulated depreciation for property and equipment under capital leases for the years ended June 30, 2018 and 2017 was $263,837 and $229,649, respectively.

6 – NOTES PAYABLE, PLEDGED ASSETS, AND INTEREST RATE SWAPS

At June 30, 2018 and 2017, the Corporation had total outstanding notes payable with a commercial bank totaling $14,152,329 and $14,924,988, respectively, inclusive of a tax-exempt note in the amounts of $7,740,057 and $8,177,492, respectively and a taxable note in the amounts of $6,412,272 and $6,747,496, respectively. Escalating principal and interest payments, commencing on July 1, 2013, 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. These notes are collateralized by substantially all assets of the Corporation.

Debt origination fees of $261,501 are recorded as a debt discount and are accreted into interest expense using the effective interest method over the debt maturity periods. As of June 30, 2018 and 2017, the debt discount balances were $102,421 and $128,571, respectively. For the years ended June 30, 2018 and 2017, accrued interest expense was $26,150.

In conjunction with entering into these notes, the Corporation entered into two interest rate swap agreements with the bank 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%.

6 – NOTES PAYABLE, PLEDGED ASSETS, AND INTEREST RATE SWAPS, CONTINUED

The fair value of the interest rate swaps is an asset of $233,988 and a liability of $139,233 as of June 30, 2018 and 2017, 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 October 13, 2016 the line of credit was amended to extend the maturity date to November 13, 2019. As of June 30, 2018 and 2017, there was no amount outstanding on this line of credit.

As of June 30, 2018, future maturities of long-term debt are as follows:

Years ending June 30:	
2019	$ 799,759
2020	826,594
2021	856,851
2022	886,965
2023	918,155
Thereafter	9,864,005
	14,152,329
Less: unamortized debt costs	(102,421)
	14,049,908
Less: current portion	(799,759)
Long-term note payable obligation	$ 13,250,149

The Corporation's long-term debt agreements require compliance with certain financial and nonfinancial covenants. As of June 30, 2018 and 2017, the Corporation was in compliance with those covenants.

Interest expense related to notes payable was approximately $502,000 and $528,000 for the years ended June 30, 2018 and 2017, respectively. The amounts are included in unrestricted general and administrative expenses in the consolidated statements of activities.

7. COMMITMENTS AND CONTINGENCIES

LEASE COMMITMENTS

The Corporation leases broadcasting tower space for the transmission of 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 described at Note 5.

As of June 30, 2018, future minimum rental commitments under noncancelable operating and capital leases are as follows:

	Capital Leases	Operating Leases
Years ending June 30:		
2019	$ 134,627	$ 434,395
2020	78,533	418,548
2021	-	421,482
2022	-	434,127
2023	-	447,151
Thereafter	-	3,408,166
Total minimum lease payments	$ 213,160	$ 5,563,869
Less: amount representing interest	(11,121)	
Net minimum capital lease payments	202,039	
Less: current portion	(125,181)	
Long-term capital lease obligation	$ 76,858	

The rental expense was approximately $479,000 and $458,000 for the years ended June 30, 2018 and 2017, 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 operations.

8. RESTRICTIONS ON NET ASSETS

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

	2018	2017
National Endowment for the Arts	$ 750,000	$ 750,000
Educational Programming	250,000	250,000
Total permanently restricted net assets	$ 1,000,000	$ 1,000,000

The changes in endowment assets for the years ended June 30, 2018 and 2017 are summarized below:

	Unrestricted	Temporarily Restricted	Permanently Restricted
Endowment assets at June 30, 2016	$ -	$ 248,782	$ 1,000,000
Net appreciation on endowment assets	-	153,690	-
Dividend and interest income	29,372	-	-
Endowment assets appropriated for spending	(29,372)	-	-
Endowment assets at June 30, 2017	-	402,472	1,000,000
Net depreciation on endowment assets	-	(35,939)	-
Dividend and interest income	31,995	-	-
Endowment assets appropriated for spending	(31,995)	-	-
Endowment assets at June 30, 2018	$ -	$ 366,533	$ 1,000,000

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

	2018	2017
Split-interest agreements	$ 87,140	$ 92,119
Net appreciation on endowment assets	366,533	402,472
Pledges for future operations	1,575,743	1,719,796
Total temporarily restricted net assets	$ 2,029,416	$ 2,214,387

9. BENEFIT PLANS

All employees are eligible to contribute to the Corporation's 403(b) plan, the North Texas Public Broadcasting Savings and Retirement Plan (the "Plan"). For the years ended June 30, 2018 and 2017, the Corporation made discretionary contributions equaling 4% of compensation for qualifying employees. For the years ended June 30, 2018 and 2017, the Corporation contributed approximately $244,000 and $228,000, respectively, in discretionary contributions. Additionally, the Corporation incurred approximately $50,000 and $45,000 in expenses related to the Plan for the years ended June 30, 2018 and 2017, respectively.

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, 2018 and 2017. The expenses would be allocated to the functional areas as follows:

	2018	2017
Program services	$ 706,712	$ 651,951
Support services	137,671	127,003
Fundraising costs	73,425	67,735
	$ 917,808	$ 846,689

11. SUBSEQUENT EVENTS

The Corporation has evaluated all events and transactions that occurred after June 30, 2018 through October 30, 2018, the date these financial statements were available to be issued. During this period there were no significant subsequent events.