

**TEXAS PUBLIC RADIO
COMBINED FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2017**

TEXAS PUBLIC RADIO
FINANCIAL STATEMENTS
Year Ended September 30, 2017

Table of Contents

	<u>Page No.</u>
Independent auditor's report	1
Financial statements	
Combined statement of financial position	2
Combined statement of activities	3
Combined statement of functional expenses	4
Combined statement of cash flows	5
Notes to combined financial statements	6

Independent Auditor's Report



Board of Directors
Texas Public Radio
San Antonio, Texas

We have audited the accompanying combined financial statements of Texas Public Radio (a nonprofit organization) and affiliate, which comprise the combined statements of financial position as of September 30, 2017 and 2016, the related combined statements of activities and functional expenses for the year ended September 30, 2017, the combined statements of cash flows for the years ended September 30, 2017 and 2016, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the combined 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 combined 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 combined 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 audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the financial position of Texas Public Radio and affiliate as of September 30, 2017 and 2016, and the changes in its net assets for the year ended September 30, 2017, and its cash flows for the years ended September 30, 2017 and 2016 in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Texas Public Radio's 2016 combined financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 20, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Sagebiel, Ravenburg & Schuh, P.C.

San Antonio, Texas
January 10, 2018

Lincoln Center
7800 I.H. 10 West, Suite 630
San Antonio, TX 78230-4750

210•979•7600

FAX 210•979•7679

TEXAS PUBLIC RADIO
COMBINED STATEMENT OF FINANCIAL POSITION

September 30, 2017 and 2016

ASSETS	<u>2017</u>	<u>2016</u>
Current assets:		
Cash	\$ 1,282,957	\$ 1,027,025
Receivables:		
Accounts receivable	755	1,743
Promises to give (net of allowance for uncollectible pledges of \$159,087 in 2017 and \$20,059 in 2016)	626,307	159,904
Underwriting	<u>378,747</u>	<u>334,331</u>
Total receivables	1,005,809	495,978
Prepaid expenses	<u>67,190</u>	<u>445,119</u>
Total current assets	<u>2,355,956</u>	<u>1,968,122</u>
Property and equipment:		
Broadcasting and other equipment	2,135,140	2,162,014
Leasehold improvements	<u>75,785</u>	<u>75,275</u>
	2,210,925	2,237,289
Less accumulated depreciation	<u>(1,309,256)</u>	<u>(1,294,233)</u>
Net property and equipment	<u>901,669</u>	<u>943,056</u>
Other assets:		
Cash and investments restricted for endowment	<u>312,931</u>	<u>286,730</u>
	<u>312,931</u>	<u>286,730</u>
Total assets	<u>\$ 3,570,556</u>	<u>\$ 3,197,908</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 62,306	\$ 55,507
Accrued liabilities	132,627	120,995
Deferred revenues	<u>257,030</u>	<u>246,048</u>
Total current liabilities	<u>451,963</u>	<u>422,550</u>
Net assets:		
Unrestricted:		
Undesignated	1,311,064	1,155,327
Fixed assets	901,669	943,056
Board-designated	<u>4,817</u>	<u>4,817</u>
	2,217,550	2,103,200
Temporarily restricted	592,929	390,245
Permanently restricted	<u>308,114</u>	<u>281,913</u>
Total net assets	<u>3,118,593</u>	<u>2,775,358</u>
Total liabilities and net assets	<u>\$ 3,570,556</u>	<u>\$ 3,197,908</u>

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

TEXAS PUBLIC RADIO
COMBINED STATEMENT OF ACTIVITIES

Year Ended September 30, 2017

(With Comparative Totals For Year Ended September 30, 2016)

	Unrestricted					Total	
	Operations	Fixed Assets	Board- Designated	Temporarily Restricted	Permanently Restricted	2017	2016
Support and revenues:							
Special events:							
Gross revenue	\$ 131,321	\$ -	\$ -	\$ -	\$ -	\$ 131,321	\$ 155,728
Less direct expenses	(28,935)	-	-	-	-	(28,935)	(28,422)
Net special events support	102,386	-	-	-	-	102,386	127,306
Program underwriting contracts	1,834,241	-	-	-	-	1,834,241	1,812,108
Grants	401,146	-	-	113,941	-	515,087	686,928
Contributions	142,428	-	-	426,099	150	568,677	124,721
Memberships	1,948,492	-	-	228,268	-	2,176,760	1,970,714
Investment income	2,486	-	-	-	(345)	2,141	(3,563)
Miscellaneous	6,334	-	-	-	-	6,334	6,752
	4,437,513	-	-	768,308	(195)	5,205,626	4,724,966
Net assets released from restrictions	565,624	-	-	(565,624)	-	-	-
Total support and revenue	5,003,137	-	-	202,684	(195)	5,205,626	4,724,966
Expenses:							
Program services:							
Broadcasting	2,662,486	137,980	-	-	-	2,800,466	2,455,759
Marketing	925,423	6,212	-	-	-	931,635	989,110
Total program services	3,587,909	144,192	-	-	-	3,732,101	3,444,869
Supporting services:							
Administrative	338,300	2,142	-	-	-	340,442	343,775
Development	813,031	3,213	-	-	-	816,244	786,308
Total supporting services	1,151,331	5,355	-	-	-	1,156,686	1,130,083
Total expenses	4,739,240	149,547	-	-	-	4,888,787	4,574,952
Change in net assets before unrealized gains (losses)	263,897	(149,547)	-	202,684	(195)	316,839	150,014
Unrealized gain on investments	-	-	-	-	26,396	26,396	15,577
Change in net assets	263,897	(149,547)	-	202,684	26,201	343,235	165,591
Net assets at beginning of year	1,155,327	943,056	4,817	390,245	281,913	2,775,358	2,609,767
Net interfund transfers	(108,160)	108,160	-	-	-	-	-
Net assets at end of year	\$ 1,311,064	\$ 901,669	\$ 4,817	\$ 592,929	\$ 308,114	\$ 3,118,593	\$ 2,775,358

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

TEXAS PUBLIC RADIO

COMBINED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended September 30, 2017

(With Comparative Totals For Year Ended September 30, 2016)

	Program Services			Management and General			Total Expenses	
	Broadcasting	Marketing	Total	Administrative	Development	Total	2017	2016
Salaries	\$ 1,180,892	\$ 586,181	\$ 1,767,073	\$ 226,359	\$ 270,223	\$ 496,582	\$ 2,263,655	\$ 2,214,468
Payroll taxes	99,056	49,531	148,587	19,052	22,858	41,910	190,497	180,461
Payroll benefits	173,365	86,732	260,097	33,345	40,061	73,406	333,503	233,143
Total salaries and related expenses	1,453,313	722,444	2,175,757	278,756	333,142	611,898	2,787,655	2,628,072
Advertising	350	27,246	27,596	-	2,165	2,165	29,761	16,399
Associated Press fees	500	-	500	-	-	-	500	5,300
Audience research	14,058	-	14,058	-	14,057	14,057	28,115	28,380
Bad debt expense	-	-	-	-	334	334	334	3,609
Bank charges	1	9	10	367	79,888	80,255	80,265	72,264
Contract labor	50,149	40,635	90,784	200	6,755	6,955	97,739	68,927
Equipment rental and maintenance	12,761	3,942	16,703	3,766	12,943	16,709	33,412	28,119
Facilities	-	2,767	2,767	200	2,500	2,700	5,467	10,747
Food expense	1,767	4,060	5,827	1,843	21,392	23,235	29,062	22,841
Honorarium fees and prizes	260	11,824	12,084	47	1,944	1,991	14,075	8,976
Insurance - liability	17,885	8,943	26,828	3,468	4,128	7,596	34,424	35,116
Internet expense	25,485	560	26,045	-	5,790	5,790	31,835	27,771
Mailing acquisition/renewal	-	-	-	-	15,368	15,368	15,368	17,517
Membership premiums	-	7,484	7,484	-	8,802	8,802	16,286	40,272
Memberships	-	-	-	-	2,923	2,923	2,923	3,732
Miscellaneous	10	-	10	2,241	20	2,261	2,271	17,536
Office expenses	8,423	4,815	13,238	3,434	3,958	7,392	20,630	19,015
Postage and shipping	223	584	807	812	12,345	13,157	13,964	16,408
Printing	133	253	386	303	1,163	1,466	1,852	933
Production costs	6,951	-	6,951	-	-	-	6,951	4,242
Professional fees	47,995	9,301	57,296	3,754	236,275	240,029	297,325	178,222
Program fees	642,451	-	642,451	-	-	-	642,451	660,990
Promotional	179	3,841	4,020	35	41	76	4,096	2,453
Recruiting	10,490	748	11,238	59	3,358	3,417	14,655	13,143
Rent	117,655	58,827	176,482	22,626	27,151	49,777	226,259	205,547
Replacement parts and supplies	7,064	-	7,064	-	-	-	7,064	8,363
Satellite interconnect fee	10,130	-	10,130	-	-	-	10,130	8,953
Staff development	1,920	2,582	4,502	2,268	4,024	6,292	10,794	28,042
Telephone	18,420	1,899	20,319	730	889	1,619	21,938	18,288
Tower lease	126,164	-	126,164	-	-	-	126,164	127,261
Trade affiliation fees	2,445	2,156	4,601	3,639	7,337	10,976	15,577	14,180
Travel	20,996	10,503	31,499	9,752	4,339	14,091	45,590	32,887
Utilities	64,308	-	64,308	-	-	-	64,308	55,652
Total expenses before depreciation	2,662,486	925,423	3,587,909	338,300	813,031	1,151,331	4,739,240	4,430,157
Depreciation	137,980	6,212	144,192	2,142	3,213	5,355	149,547	144,795
Total expenses	\$ 2,800,466	\$ 931,635	\$ 3,732,101	\$ 340,442	\$ 816,244	\$ 1,156,686	\$ 4,888,787	\$ 4,574,952

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

TEXAS PUBLIC RADIO
COMBINED STATEMENT OF CASH FLOWS
Years Ended September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flow from operating activities:		
Change in net assets	\$ 343,235	\$ 165,591
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	149,547	144,795
(Gain) loss on disposal of property and equipment	2,236	(2,570)
Realized and unrealized (gains) losses on investments	(21,061)	(9,064)
Change in:		
Receivables	(509,831)	49,187
Prepaid expenses	377,929	22,642
Accounts payable	6,799	25,974
Accrued liabilities	11,632	12,763
Deferred revenues	10,982	(25,890)
Net cash provided by operating activities	<u>371,468</u>	<u>383,428</u>
Cash flows from investing activities:		
Net change in restricted cash and investments	(5,140)	(5,832)
Purchase of property and equipment	(110,396)	(306,226)
Proceeds from disposal of property and equipment	<u>-</u>	<u>28,663</u>
Net cash used by investing activities	<u>(115,536)</u>	<u>(283,395)</u>
Net increase in cash	255,932	100,033
Cash at beginning of year	<u>1,027,025</u>	<u>926,992</u>
Cash at end of year	<u>\$ 1,282,957</u>	<u>\$ 1,027,025</u>

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

TEXAS PUBLIC RADIO

NOTES TO COMBINED FINANCIAL STATEMENTS

1 NATURE OF ORGANIZATION

Texas Public Radio (TPR) is a not-for-profit corporation whose purpose is to broadcast programs for informational, educational and entertainment purposes. The corporation was formed by the merger of Classical Broadcasting Society of San Antonio (KPAC) and San Antonio Community Radio Corporation (KSTX). In 1998 TPR expanded its services by activating a station (KTXI) to better serve listeners in the Texas Hill Country. In January 2013, TPR began broadcasting to Snyder, Big Spring and Sweetwater by adding station KTPR. KVHL was added in October 2013 to serve listeners in Llano and the Highland Lakes region. In 2016, TPR activated KTPD in Del Rio and acquired KCTI in Gonzales. The majority of underwriters and members who substantially support Texas Public Radio are located in the San Antonio and Texas Hill Country area.

Texas Public Radio Foundation (Foundation) was incorporated in September 2001. Its purpose is to receive, invest and distribute the charitable gifts that constitute the endowment of TPR and shall support educational public broadcasting and other educational activities of TPR for South Texas.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of TPR have been prepared on the accrual basis of accounting. The financial statements accordingly reflect all significant receivables, payables, and other liabilities.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board for the format of financial statements of not-for-profit organizations. TPR is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

The combined financial statements include the accounts of Texas Public Radio and its affiliate, Texas Public Radio Foundation. TPR and the Foundation operate with the same officers and directors, and office facilities and staff are mutually shared. Accordingly, the financial statements have been combined. All intercompany accounts are eliminated in the combination.

Comparative Financial Information

The 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 generally accepted accounting principles. Accordingly, such information should be read in conjunction with TPR's financial statements for the year ended September 30, 2016, from which the summarized information was derived.

Donated Services

No amounts have been reflected in the financial statements for donated services. TPR generally pays for services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist TPR with fundraising efforts. Note 13 discusses the services TPR receives without charge from its volunteers and donors.

Income Taxes

TPR is a not-for-profit corporation exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. It has been classified as an organization that is not a private foundation under Section 509(a)(2) of the Internal Revenue Code and qualifies for the 50% charitable contributions deduction for individual donors.

Restricted and Unrestricted Revenue and Support

TPR reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated asset. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

(Continued)

TEXAS PUBLIC RADIO

NOTES TO COMBINED FINANCIAL STATEMENTS

(Continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Revenues

Deferred revenues are amounts representing contracts for business support for future periods that are carried as deferred revenues until the period in which they are considered earned.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash

Cash consists of monies on hand and on deposit in checking, savings and money market accounts. Cash that is restricted or designated in some manner is classified separately.

Investments

Investments are carried at market value for financial statement purposes. A provision for unrealized gains or losses is made each year to adjust to the appropriate value. Realized and unrealized gains and losses are determined by comparison of cost to proceeds or market value, respectively. Cost is determined by historical purchase price or, in the case of any donated investments, the fair market value of those investments at the date of the gift. Market risk could occur and is dependent on the future changes in market price of the various investments held.

Property and Equipment

TPR capitalizes all expenditures for property and equipment in excess of \$500. Property and equipment are carried at cost or, if donated, at the approximate fair market value at the date of the donation. Maintenance and repairs are charged to expenses as incurred; major renewals and betterments are capitalized. Depreciation is computed using the straight-line method over their estimated useful lives.

Expense Allocation

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time and expense studies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of TPR.

Reclassifications

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

Subsequent Events

TPR's management has evaluated subsequent events through January 10, 2018, the date which the financial statements were available for issue.

3 RECEIVABLES AND CREDIT RISK CONCENTRATION

TPR maintains cash balances at eight financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. At September 30, 2017, TPR's cash balances were fully insured with federal depository insurance.

Management analyzes the aging of accounts receivable on a quarterly basis. Accounts receivable are considered delinquent when they are over 90 days old. Payment trends by delinquent accounts are considered by management when estimating the allowance for doubtful accounts. At September 30, 2017 and 2016, management estimated the allowance for doubtful accounts to be \$159,087 and \$20,059 for those years, respectively. Accounts determined to be uncollectible by management are initially charged to the allowance for doubtful accounts.

(Continued)

TEXAS PUBLIC RADIO

NOTES TO COMBINED FINANCIAL STATEMENTS

(Continued)

3 RECEIVABLES AND CREDIT RISK CONCENTRATION (Continued)

Unconditional promises to give are as follows:

	<u>2017</u>	<u>2016</u>
Capital campaign	\$ 398,039	\$ -
Restricted for use in future periods	<u>228,268</u>	<u>159,904</u>
	<u>\$ 626,307</u>	<u>\$ 159,904</u>
	<u>2017</u>	<u>2016</u>
Receivable in less than one year	\$ 484,785	\$ 179,963
Receivable in one to five years	<u>310,650</u>	<u>-</u>
Total unconditional promises to give	795,435	179,963
Less discounts to net present value	(10,041)	-
Less allowance for uncollectible promises receivable	<u>(159,087)</u>	<u>(20,059)</u>
Net unconditional promises to give	<u>\$ 626,307</u>	<u>\$ 159,904</u>

Promises to give receivable in more than one year are discounted at 2.21%.

4 INVESTMENTS

TPR owned the following investments at September 30, 2017 and 2016:

	2017		2016	
	Cost	Market	Cost	Market
Restricted for Endowment:				
Cash and equivalents	\$ 10,597	\$ 10,597	\$ 29,283	\$ 29,283
Equities	102,835	119,540	39,792	41,760
Mutual funds	<u>170,623</u>	<u>182,794</u>	<u>216,328</u>	<u>215,687</u>
	<u>\$ 284,055</u>	<u>\$ 312,931</u>	<u>\$ 285,403</u>	<u>\$ 286,730</u>

Generally accepted accounting principles provide a framework for measuring fair value. That framework establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). At September 30, 2017 and 2016, TPR's investments were reported at fair value using a Level 1 measure.

5 PROGRAM UNDERWRITING CONTRACTS

Program underwriting contracts revenue consisted of the following:

	<u>2017</u>	<u>2016</u>
Business memberships	\$ 388,867	\$ 366,901
Underwriting contracts	<u>1,445,374</u>	<u>1,445,207</u>
	<u>\$ 1,834,241</u>	<u>\$ 1,812,108</u>

TEXAS PUBLIC RADIO

NOTES TO COMBINED FINANCIAL STATEMENTS

(Continued)

6 PROPERTY AND EQUIPMENT

Property and equipment of TPR consisted of the following:

	<u>2017</u>	<u>2016</u>
Land	\$ 16,000	\$ 16,000
Broadcast equipment	1,851,450	1,849,376
Library	30,241	30,241
Furniture, fixtures and equipment	237,449	266,397
Leasehold improvements	<u>75,785</u>	<u>75,275</u>
	2,210,925	2,237,289
Less accumulated depreciation	<u>(1,309,256)</u>	<u>(1,294,233)</u>
Net property and equipment	<u>\$ 901,669</u>	<u>\$ 943,056</u>

During the year 2007, equipment in the amount of \$169,145 (digital studio equipment and furnishings) was acquired under National Telecommunications and Information Administration Grant No. 48-01-N06029. The equipment is under a lien and the term of this priority lien extends for a period of ten years from September 30, 2007, during which time the Federal Government retains a priority reversionary interest in the equipment.

7 REVOLVING LINE OF CREDIT

Texas Public Radio has a \$250,000 revolving line of credit with a financial institution, which matures on August 1, 2018. Advances on the unsecured line of credit bear interest at the Bank's floating prime rate of 4.25%. At September 30, 2017, TPR had a \$-0- balance, with an available amount on the line of credit of \$250,000.

8 LEASES

TPR leases its facilities and offices under several operating leases expiring at various dates through December 2021. The following are future minimum rental payments under these leases:

<u>Year Ending September 30,</u>	<u>Amount</u>
2018	\$ 339,246
2019	259,359
2020	265,630
2021	265,824
2022	<u>65,774</u>
	<u>\$ 1,195,833</u>

TPR leases its office equipment under one operating lease that expires in November 2021. The following are future minimum rental payments under these leases:

<u>Year Ending September 30,</u>	<u>Amount</u>
2018	\$ 3,776
2019	3,438
2020	3,438
2021	3,438
2022	<u>573</u>
	<u>\$ 14,663</u>

Total rent payments on these leases for the years ended September 30, 2017 and 2016 were \$358,082 and \$338,479, respectively.

9 RETIREMENT PLAN

TPR has established a Simple IRA retirement plan under which TPR will contribute to any eligible employee's IRA plan, a total of 2% of their annual salary. An eligible employee is an employee who earned at least \$5,000 per year, including part-time employees. The total retirement contributions for the years ended September 30, 2017 and 2016 were \$53,593 and \$30,370, respectively.

TEXAS PUBLIC RADIO

NOTES TO COMBINED FINANCIAL STATEMENTS

(Continued)

10 FUNDRAISING EXPENSE

Total fundraising expense for the years ended September 30, 2017 and 2016 was \$816,244 and \$786,308, respectively.

11 TEMPORARILY RESTRICTED NET ASSETS

During 2017 and 2016, TPR received contributions for various specific programs and activities. As of September 30, 2017 and 2016, temporarily restricted net assets consisted of the following:

	<u>2017</u>	<u>2016</u>
Challenge grants	\$ 146,441	\$ 230,341
Pledges	228,268	159,904
Capital campaign	<u>218,220</u>	<u>-</u>
	<u>\$ 592,929</u>	<u>\$ 390,245</u>

12 ENDOWMENT FUNDS

General Information

The Foundation maintains various endowment funds established for specific purposes. These endowments include both donor-restricted endowment contributions and funds designated by the Board of Directors to function as endowments. The donor-restricted endowment funds fall under the provisions of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) which was adopted by the State of Texas with an effective date of September 1, 2007. The Foundation formally adopted UPMIFA during the year ended September 30, 2012.

Background

In July 2006, the Uniform Law Commission (ULC) approved UPMIFA as a modernized version of the Uniform Management of Institutional Funds Act of 1972 (UMIFA) which governed the investment and management of donor-restricted endowment funds by not-for-profit organizations. The major change of the new law is that UPMIFA prescribes new guidelines for expenditure of a donor-restricted endowment fund when there are no explicit donor stipulations. These guidelines require the Foundation to determine what constitutes prudent spending based upon consideration of the donor's intent that the endowment fund continues permanently, the purpose of the fund, and relevant economic factors. UPMIFA emphasizes the perpetuation of the purchasing power of the fund, not just the original dollars contributed to the fund. Although the Act does not require that a specified amount be set aside as principal, the Act assumes that an organization will preserve "principal" by maintaining the purchasing power of amounts contributed and will spend "income" by making distributions using a reasonable spending rate.

Endowment Investment Objectives

Endowment investments are managed by professional money managers under the direction of the Finance Committee of the Board of Directors of the Foundation. Funds are invested in a manner that seeks to produce results that meet or exceed the performance of generally recognized market indices while assuming a moderate level of investment risk.

To satisfy this performance objective, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Endowment "Income" Appropriation (Spending Policy)

During 2011, the Finance Committee began developing and finalizing the Foundation's spending policy. In establishing this policy, the Foundation considered the long-term expected return on its endowment and the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as provide additional real growth through new gifts and investment return.

(Continued)

TEXAS PUBLIC RADIO

NOTES TO COMBINED FINANCIAL STATEMENTS

(Continued)

12 ENDOWMENT FUNDS (Continued)

The Foundation's goal is to distribute its income as "evenly" as practical on an annual basis in order to facilitate the planning and budgeting objectives, and the setting of the asset allocation and expected return targets of the portfolio. Knowing that the investment rate of return will vary from year to year, and to avoid distributing more investment income in the high return investment years so that adequate funds are available in the low or negative return investment years, a disciplined distribution policy is prudent.

The annual distribution amount will be set as of the end of the previous fiscal year (September 30), and will be calculated based on the average quarterly market value of the fund balances for the preceding three years. It is understood that successive low or negative return years may necessitate utilization of funds from the principal balance of the Endowment's fund in order to meet the annual budget, and that in years when returns exceed expectations the additional earnings will be used to restore principal and to generate "future savings" balances for years of low investment returns.

In accordance with the formal adoption of UPMIFA, the Investment Committee of the Foundation has reviewed its spending policy and takes into consideration the following factors in making a determination to appropriate (spend) or accumulate donor restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Foundation and the donor-restricted endowment fund
3. General economic and investment market conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Foundation and
7. The investment policies of the Foundation

Endowment net asset composition by type of fund as of September 30, 2017 and 2016 is as follows:

	2017			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment</u>
Donor-restricted endowment funds	\$ -	\$ -	\$ 308,114	\$ 308,114
Board-designated endowment funds	4,817	-	-	4,817
Total endowment funds	<u>\$ 4,817</u>	<u>\$ -</u>	<u>\$ 308,114</u>	<u>\$ 312,931</u>
	2016			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment</u>
Donor-restricted endowment funds	\$ -	\$ -	\$ 281,913	\$ 281,913
Board-designated endowment funds	4,817	-	-	4,817
Total endowment funds	<u>\$ 4,817</u>	<u>\$ -</u>	<u>\$ 281,913</u>	<u>\$ 286,730</u>

(Continued)

TEXAS PUBLIC RADIO

NOTES TO COMBINED FINANCIAL STATEMENTS

(Continued)

12 ENDOWMENT FUNDS (Continued)

Changes in endowment net assets for the years ended of September 30, 2017 and 2016 were as follows:

	2017			
	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	Total <u>Endowment</u>
	Endowment net assets, beginning of year	\$ 4,817	\$ -	\$ 281,913
Contributions	-	-	150	150
Transfers	-	-	-	-
Investment income	-	-	(345)	(345)
Net appreciation (depreciation)	-	-	26,396	26,396
Amounts appropriated for expenditure	-	-	-	-
	<u>\$ 4,817</u>	<u>\$ -</u>	<u>\$ 308,114</u>	<u>\$ 312,931</u>
2016				
	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	Total <u>Endowment</u>
Endowment net assets, beginning of year	\$ -	\$ -	\$ 271,834	\$ 271,834
Contributions	-	-	3,018	3,018
Transfers	4,817	-	-	4,817
Investment income	-	-	(5,616)	(5,616)
Net appreciation (depreciation)	-	-	15,577	15,577
Amounts appropriated for expenditure	-	-	(2,900)	(2,900)
	<u>\$ 4,817</u>	<u>\$ -</u>	<u>\$ 281,913</u>	<u>\$ 286,730</u>

13 NONCASH COMMODITIES AND SERVICES

Contributed services not meeting the requirements for recognition in the financial statements and used primarily in connection with fundraising efforts, are as follows:

	<u>2017</u>	<u>2016</u>
Commodities	\$ 51,709	\$ 87,308
Services	107,011	99,483
	<u>\$ 158,720</u>	<u>\$ 186,791</u>

14 SUBSEQUENT EVENTS

Subsequent to year-end, TPR signed an agreement to lease property in downtown San Antonio through 2036. In conjunction with this lease agreement, TPR signed a funding agreement to provide \$5,000,000 in funding towards renovations of the leased property. In addition to TPR's funding commitment, the City of San Antonio and Bexar County have also agreed to provide \$9,000,000 each in funding towards renovations of the leased property. As of the report date, TPR has not yet made any payments under this funding agreement.