
WNET.ORG

AND SUBSIDIARIES

**CONSOLIDATED FINANCIAL STATEMENTS
(Together with Independent Auditors' Report)**

YEARS ENDED JUNE 30, 2010 AND 2009



WNET.ORG
(A New York Education Corporation Chartered by the Board of Regents)
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
(Together with Independent Auditors' Report)

YEARS ENDED JUNE 30, 2010 AND 2009

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
WNET.ORG

We have audited the accompanying consolidated statements of financial position of WNET.ORG (a New York education corporation chartered by the Board of Regents) and subsidiaries (collectively, the "Company") as of June 30, 2010 and 2009, and the related consolidated statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of WNET.ORG and subsidiaries as of June 30, 2010 and 2009 and the changes in their net assets and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplemental schedules of functional expenses (shown on pages 21 and 22) are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements. Those supplemental schedules are the responsibility of the Company's management. Such supplemental schedules have been subjected to the auditing procedures applied in our audit of the basic consolidated financial statements and, in our opinion, are fairly stated in all material respects when considered in relation to the basic consolidated financial statements taken as a whole.

Marks Paneth & Shron LLP

New York, NY
January 31, 2011

WNET.ORG
(A New York Education Corporation Chartered by the Board of Regents)
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
ASSETS		
Cash and cash equivalents (Note 18)	\$ 8,398,000	\$ 6,082,000
Investments (Notes 2C, 4, 5, 7, 14 and 17)	85,819,000	85,728,000
Accounts receivable (net of allowance for doubtful accounts of \$216,000 and \$1,360,000 in 2010 and 2009, respectively)	3,201,000	7,483,000
Grants and gifts receivable, net (Notes 3 and 14)	73,034,000	59,697,000
Costs incurred for programs not yet telecast	18,021,000	20,224,000
Prepaid expenses and other assets, net (Notes 11 and 15)	4,072,000	3,616,000
Property and equipment, net (Note 6)	31,264,000	32,559,000
Excess of purchase price over net tangible assets acquired and broadcast license	<u>13,554,000</u>	<u>13,554,000</u>
TOTAL ASSETS	<u>\$ 237,363,000</u>	<u>\$ 228,943,000</u>
LIABILITIES		
Accounts payable and accrued expenses (Notes 2H, 2K, 11, 12C and 12D)	\$ 27,457,000	\$ 39,275,000
Deferred revenue (Note 13)	8,595,000	9,958,000
Bank line of credit (Notes 4 and 7)	<u>25,000,000</u>	<u>16,000,000</u>
TOTAL LIABILITIES	<u>61,052,000</u>	<u>65,233,000</u>
COMMITMENTS AND CONTINGENCIES (Note 12)		
NET ASSETS		
Unrestricted:		
Operations	20,311,000	19,535,000
Nonspendable (Notes 4 and 17)	9,741,000	4,907,000
Board designated (Note 17)	<u>1,739,000</u>	<u>1,739,000</u>
Total unrestricted	31,791,000	26,181,000
Temporarily restricted (Note 8)	79,104,000	75,366,000
Permanently restricted (Notes 9 and 17)	<u>65,416,000</u>	<u>62,163,000</u>
TOTAL NET ASSETS	<u>176,311,000</u>	<u>163,710,000</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 237,363,000</u>	 <u>\$ 228,943,000</u>

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

WNET.ORG
(A New York Education Corporation Chartered by the Board of Regents)
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CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	For the Year Ended June 30, 2010				For the Year Ended June 30, 2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2010	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2009
OPERATING REVENUE AND OTHER SUPPORT:								
Contributions and underwriting for designated projects (Note 10)	\$ 32,530,000	\$ 100,903,000	\$ -	\$ 133,433,000	\$ 39,581,000	\$ 76,828,000	\$ -	\$ 116,409,000
New York State grant	6,971,000	-	-	6,971,000	8,713,000	-	-	8,713,000
Nonbroadcast sales	6,540,000	-	-	6,540,000	6,001,000	-	-	6,001,000
Investment income (Note 4)	5,065,000	-	-	5,065,000	5,343,000	-	-	5,343,000
Other income (Note 13)	7,671,000	-	-	7,671,000	9,670,000	-	-	9,670,000
Total revenue	<u>58,777,000</u>	<u>100,903,000</u>	<u>-</u>	<u>159,680,000</u>	<u>69,308,000</u>	<u>76,828,000</u>	<u>-</u>	<u>146,136,000</u>
Net assets released from restrictions:								
Underwriting for designated projects (Note 10)	64,648,000	(64,648,000)	-	-	60,473,000	(60,473,000)	-	-
CPB Program Grants	4,047,000	(4,047,000)	-	-	5,957,000	(5,957,000)	-	-
CPB Community Service Grant	7,373,000	(7,373,000)	-	-	8,958,000	(8,958,000)	-	-
PBS Program Service Grants	21,097,000	(21,097,000)	-	-	18,936,000	(18,936,000)	-	-
Total net assets released from restrictions	<u>97,165,000</u>	<u>(97,165,000)</u>	<u>-</u>	<u>-</u>	<u>94,324,000</u>	<u>(94,324,000)</u>	<u>-</u>	<u>-</u>
TOTAL OPERATING REVENUE AND OTHER SUPPORT	<u>155,942,000</u>	<u>3,738,000</u>	<u>-</u>	<u>159,680,000</u>	<u>163,632,000</u>	<u>(17,496,000)</u>	<u>-</u>	<u>146,136,000</u>
OPERATING EXPENSES:								
Program service (Note 10):								
National program service	83,933,000	-	-	83,933,000	88,478,000	-	-	88,478,000
Broadcast station	31,045,000	-	-	31,045,000	39,936,000	-	-	39,936,000
Education	6,426,000	-	-	6,426,000	9,458,000	-	-	9,458,000
Total program service	<u>121,404,000</u>	<u>-</u>	<u>-</u>	<u>121,404,000</u>	<u>137,872,000</u>	<u>-</u>	<u>-</u>	<u>137,872,000</u>
Fundraising:								
Membership and development	12,269,000	-	-	12,269,000	18,543,000	-	-	18,543,000
Marketing	4,166,000	-	-	4,166,000	5,876,000	-	-	5,876,000
Total fundraising	<u>16,435,000</u>	<u>-</u>	<u>-</u>	<u>16,435,000</u>	<u>24,419,000</u>	<u>-</u>	<u>-</u>	<u>24,419,000</u>
Management and administration services	17,327,000	-	-	17,327,000	23,504,000	-	-	23,504,000
TOTAL OPERATING EXPENSES	<u>155,166,000</u>	<u>-</u>	<u>-</u>	<u>155,166,000</u>	<u>185,795,000</u>	<u>-</u>	<u>-</u>	<u>185,795,000</u>
CHANGE IN NET ASSETS FROM OPERATIONS	<u>776,000</u>	<u>3,738,000</u>	<u>-</u>	<u>4,514,000</u>	<u>(22,163,000)</u>	<u>(17,496,000)</u>	<u>-</u>	<u>(39,659,000)</u>
NON-OPERATING ACTIVITIES AND SUPPORT:								
Endowment contributions	-	-	3,253,000	3,253,000	-	-	1,287,000	1,287,000
Investment income (loss) from investment fund contributions (Note 4)	10,072,000	-	-	10,072,000	(20,203,000)	-	-	(20,203,000)
Appropriated investment income (Note 4)	(5,000,000)	-	-	(5,000,000)	(5,312,000)	-	-	(5,312,000)
Investment fund management fees	(238,000)	-	-	(238,000)	(395,000)	-	-	(395,000)
CHANGE IN NET ASSETS FROM NON-OPERATING ACTIVITIES	<u>4,834,000</u>	<u>-</u>	<u>3,253,000</u>	<u>8,087,000</u>	<u>(25,910,000)</u>	<u>-</u>	<u>1,287,000</u>	<u>(24,623,000)</u>
CHANGE IN TOTAL NET ASSETS	<u>5,610,000</u>	<u>3,738,000</u>	<u>3,253,000</u>	<u>12,601,000</u>	<u>(48,073,000)</u>	<u>(17,496,000)</u>	<u>1,287,000</u>	<u>(64,282,000)</u>
Net Assets - beginning of year	<u>26,181,000</u>	<u>75,366,000</u>	<u>62,163,000</u>	<u>163,710,000</u>	<u>74,254,000</u>	<u>92,862,000</u>	<u>60,876,000</u>	<u>227,992,000</u>
NET ASSETS - END OF YEAR	<u>\$ 31,791,000</u>	<u>\$ 79,104,000</u>	<u>\$ 65,416,000</u>	<u>\$ 176,311,000</u>	<u>\$ 26,181,000</u>	<u>\$ 75,366,000</u>	<u>\$ 62,163,000</u>	<u>\$ 163,710,000</u>

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

WNET.ORG
(A New York Education Corporation Chartered by the Board of Regents)
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 12,601,000	\$ (64,282,000)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	4,575,000	4,718,000
Write-off/loss on disposal of fixed assets, net	1,227,000	32,000
(Gain) loss on sale of stock contributions	(7,000)	25,000
Endowment contributions	(3,253,000)	(1,287,000)
Realized gains on investments	(1,850,000)	(8,245,000)
Unrealized (gain) loss on investments	<u>(6,758,000)</u>	<u>30,622,000</u>
Subtotal	6,535,000	(38,417,000)
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable	4,282,000	(1,679,000)
Grants and gifts receivable	(13,337,000)	26,144,000
Costs incurred for programs not yet telecast	2,203,000	3,703,000
Prepaid expenses and other assets	(456,000)	418,000
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(11,174,000)	9,595,000
Deferred revenue	<u>(1,363,000)</u>	<u>(1,935,000)</u>
Net Cash Used in Operating Activities	<u>(13,310,000)</u>	<u>(2,171,000)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment purchases and reinvested income	(27,348,000)	(11,909,000)
Proceeds from sales of investments	35,865,000	15,685,000
Gain (loss) on sale of stock contributions	7,000	(25,000)
Purchase of property and equipment	<u>(4,507,000)</u>	<u>(7,045,000)</u>
Net Cash Provided (Used) in Investing Activities	<u>4,017,000</u>	<u>(3,294,000)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Endowment contributions	3,253,000	1,287,000
Proceeds from bank line of credit	9,000,000	3,000,000
Payment of annuity obligations	<u>(644,000)</u>	<u>(604,000)</u>
Net Cash Provided by Financing Activities	<u>11,609,000</u>	<u>3,683,000</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,316,000	(1,782,000)
Cash and cash equivalents - beginning of year	<u>6,082,000</u>	<u>7,864,000</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 8,398,000</u>	<u>\$ 6,082,000</u>
Supplemental Disclosure of Cash Flow Information:		
Interest paid during the year	<u>\$ 370,000</u>	<u>\$ 388,000</u>

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

WNET.ORG
(A New York Education Corporation Chartered by the Board of Regents)
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 1—ORGANIZATION AND NATURE OF ACTIVITIES

WNET.ORG is a New York education corporation chartered by the Board of Regents on April 15, 2008. Its mission is to acquire, distribute, and through its controlled subsidiaries, Thirteen (formerly Educational Broadcasting Corporation (“EBC”)) and Creative News Group, LLC (“CNG”), produce public educational television programs. WNET.ORG is the sole member of Thirteen and CNG. WNET.ORG serves the entire New York City metro area with unique local productions, broadcasts and innovative educational and cultural projects. WNET.ORG’s goal is to create media experiences of lasting significance for New York, America and the world. On March 20, 2009, WNET.ORG received a final determination letter from the Internal Revenue Service granting its tax-exempt status under Section 501(c)(3) of the Internal Revenue Code.

Formed in 1962, Thirteen is a New York education corporation chartered by the Board of Regents. Thirteen produces and broadcasts public educational television programs individually and in collaboration with other entities and broadcasts such programs on Channel 13 (“WNET”), Channel 21 (“WLIW”) and on other public television stations throughout the United States.

On January 31, 2003, Thirteen acquired the assets of the Long Island Educational TV Council, Inc. (the “Council”), including WLIW. Principal operating activities of the Council are now conducted by Thirteen under the name WLIW, L.L.C.

In addition, Public Broadcasting Communications, Inc. (“PBC”) is a controlled subsidiary of Thirteen. It is currently dormant.

Current LLC (“Current”) is another subsidiary of WNET.ORG. Current is a Delaware limited liability company that publishes a bi-weekly newspaper covering the public television and radio industries.

In 2008, WNET.ORG acquired CNG. CNG is a New York limited liability company that produces public education television programs for broadcast nationally and on WNET, WLIW and for online distribution.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. ***Basis of Presentation*** – The accompanying consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America. The consolidated financial statements of the Company include the accounts of WNET.ORG and its subsidiaries, Thirteen, WLIW, CNG, Current and PBC. All intercompany balances have been eliminated. Also, the Company’s consolidated financial statement amounts were rounded to the nearest thousand.
- B. ***Cash and Cash Equivalents*** – The Company considers all highly liquid financial instruments with a maturity of three months or less when purchased to be cash equivalents, except money market funds held in the investment portfolio.
- C. ***Investments*** – Investments are stated at fair value. Fair value for investments traded publicly is based on published market prices. Fair values of investments not traded publicly have been estimated by management based on information provided by the fund managers, the general partners or the limited liability companies. Investment transactions are accounted for on the date the investments are purchased or sold (trade date). The realized gains from the sale of securities, capital gain distributions, interest and dividend income are recorded as earned.

As of June 30, 2010 and 2009, the consolidated financial statements include investments valued at \$24,433,000 and \$37,203,000, respectively, whose value has been estimated by management based on information provided by the fund managers or general partners of the investment companies.

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JUNE 30, 2010 AND 2009

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- D. ***Cost Incurred for Programs Not Yet Telecast*** – Costs incurred for programs not yet telecast relate to programs that will be aired subsequent to the Company's fiscal year-end. As the programs are telecast, these costs are included in operating expenses and related restricted net assets are released.
- E. ***Property and Equipment*** – Property and equipment is recorded at cost less accumulated depreciation. The amounts do not purport to represent replacement or realizable values. Starting in fiscal year 2010, the Company capitalizes computer equipment with a cost of \$500 or more, and all other property and equipment with a cost of \$5,000 or more and a useful life of greater than three years. In 2009 and prior years, the Company capitalized property and equipment with a cost of \$750 or more and a useful life of greater than three years. Depreciation is calculated using the straight-line method over the useful lives of the assets, ranging from 3 to 31 years. Expenditures for leasehold improvements are capitalized and amortized over the shorter of the life of the asset or the lease term.
- F. ***Impairment of Long-Lived Assets*** – In accordance with ASC 360-10, *Property, Plant and Equipment, "Impairment or Disposal of Long-Lived Assets,"* the Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. No impairment loss has been recognized by the Company for each of the years ended June 30, 2010 and 2009.
- G. ***Excess of Purchase Price Over Net Tangible Assets Acquired and Broadcast License*** – The excess of the purchase price over the net tangible assets acquired in 1962 and the broadcast license is not being amortized. In the opinion of management, the station and the related broadcast license are deemed to have indefinite lives, and no diminution in value has occurred. There were no impairment charges recorded during the years ended June 30, 2010 and 2009.
- H. ***Life Annuities*** – The Company has entered into Life Annuity Trusts whereby donors receive payments for the remainder of their lives with any remainder at death reverting to the Company, unless specifically restricted by the donor. The remainders of all such agreements have been permanently restricted by the donors. The liability is determined based on actuarial assumptions and, as of June 30, 2010 and 2009, a liability of \$4,064,000 and \$3,948,000, respectively, was included in accounts payable and accrued expenses. The amount of contributions recorded by the Company is the fair value of the trust assets received less the present value of the estimated annuity payments. As of June 30, 2010 and 2009, the trust assets were \$6,855,000 and \$6,312,000, respectively.
- I. ***Contributions and Grants*** – Contributions and grants are recognized as revenue when they are received or unconditionally pledged.

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

The Company reports gifts of cash and other assets as permanently restricted support when use by the Company is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of the Company. Earnings on permanently restricted net assets are available for various programs as described in Note 9.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Company reports gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Company reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

- J. ***Allowance for Doubtful Accounts*** – The Company estimates the allowance for doubtful accounts based on management’s evaluation of the creditworthiness of its donors and grantors, the aged basis of its receivables, as well as current economic conditions and historical information.
- K. ***Deferred Rent*** – The Company leases real property under operating leases expiring at various dates in the future. Since the rent payments increase over time, the Company records an adjustment to rent expense each year to reflect its straight-lining policy. The annual adjustment decreasing the rent expense recorded for the years ended June 30, 2010 and 2009 amounted to \$650,000 and \$466,000, respectively. Straight-lining of rent gives rise to a timing difference that is reflected as accounts payable and accrued expenses in the accompanying consolidated statements of financial position. As of June 30, 2010 and 2009, such deferrals amounted to \$4,682,000 and \$5,332,000, respectively.
- L. ***Nonbroadcast Sales*** – Nonbroadcast sales are generated primarily from home video sales and royalties and are recorded as earned.
- M. ***Other Income*** – Other income is generated from facility rental fees and reimbursement for expenses. Additionally, during the years ended June 30, 2010 and 2009, the Company recognized revenue from the licensing of its unused spectrum (see Note 13).
- N. ***Measure of Operations*** – The Company includes in its definition of operations, all support, revenue and expenses that are an integral part of its program and supporting activities. Endowment contributions and investment income, including realized and unrealized gains and losses, earned in excess of the Company’s authorized spending policy, are recognized as non-operating activities and support.
- O. ***Income Taxes*** – WNET.ORG and its subsidiaries are exempt from Federal income taxation under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income tax has been recorded in the accompanying consolidated financial statements.

Effective July 1, 2009, the Company adopted the provisions of FASB Interpretation No. 48 (“FIN 48”), “Accounting for Uncertainties in Income Taxes – an Interpretation of FASB Statement No. 109,” now incorporated in ASC Topic 740, which provides standards for establishing and classifying any tax provisions for uncertain tax positions. The adoption of FIN 48 did not have an effect on the Company’s financial position as of July 1, 2009 or the Company’s change in net assets and cash flows for the year ended June 30, 2010. The Company is no longer subject to federal or state and local income tax examinations by tax authorities for years before 2007.

- P. ***Use of Estimates*** – The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires the Company 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 financial statements, and the reported amounts of revenues and expenses during the reporting period.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Q. ***Fair Value Measurements*** – Fair value measurements are based on 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. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy prioritizes observable and unobservable inputs used to measure fair value into three levels, as described below:

- **Level 1** – Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury and federal agency securities and federal agency mortgage-backed securities, which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.
- **Level 2** - Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third-party pricing services for identical or similar assets or liabilities.
- **Level 3** - Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models or similar techniques, and not based on market exchange, dealer, or broker-traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

The Company has adopted the disclosure requirements of Accounting Standards Update No. 2009-12, Fair Value Measurements and Disclosures (Topic 820), “Investments in Certain Entities that Calculate Net Asset Value Per Share (or its Equivalent)” (ASC No. 2009-12”), issued by the FASB in September 2009, for investments in mutual funds, which are recorded at net asset value per share (see Notes 4 and 14). There are no restrictions on redemptions or lockup provisions on these investments. In addition, fair value is observable at any given time. The adoption of this standard did not impact the financial position or operations of the Company as of and for the year ended June 30, 2010.

R. ***Investment Spending Policy*** – The Company’s Board has authorized a policy to provide a predictable flow of funds to support operations. The policy permits up to a 5% spending rate to be used for operations based on the average cumulative investment fund balance for the past three fiscal years as long as nonspendable investment earnings are available.

The Company considers the investment earnings in excess of its spending rate to be nonspendable unrestricted net assets.

S. ***Subsequent Events*** – Management has evaluated, for potential recognition and disclosure, events subsequent to the date of the statement of consolidated financial position through January 31, 2011, the date the consolidated financial statements were available to be issued. Other than the subsequent events discussed in Notes 7, 11 and 12, no other events have occurred subsequent to the date of the consolidated statement of financial position through January 31, 2011 that would require adjustment or disclosure in the consolidated financial statements.

WNET.ORG
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 3—GRANTS AND GIFTS RECEIVABLE

As of June 30, 2010 and 2009, the Company has unconditional grants and gifts receivable as follows:

	<u>2010</u>	<u>2009</u>
Amount due in less than one year	\$ 51,063,000	\$ 40,632,000
Amount due from one to five years	19,497,000	19,376,000
Amount due after five years	<u>5,625,000</u>	<u>2,656,000</u>
	76,185,000	62,664,000
Less: Unamortized discount to present value	(2,851,000)	(2,667,000)
Allowance for doubtful accounts	<u>(300,000)</u>	<u>(300,000)</u>
	<u>\$ 73,034,000</u>	<u>\$ 59,697,000</u>

The pledges to be received after one year are discounted to present value at interest rates ranging from 1.00% to 6.00%. The amortization of the discount is reflected as additional contribution revenue in the accompanying consolidated financial statements.

NOTE 4—INVESTMENTS

The major classes of investments as of June 30, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
Cash and money market funds	\$ 7,078,000	\$ 7,077,000
U.S. equity funds	15,225,000	17,431,000
International equity funds	12,555,000	16,778,000
Fixed income funds	32,728,000	18,738,000
Treasury Inflation Protected Securities ("TIPS")	9,650,000	8,514,000
Alternative investments	5,597,000	9,968,000
Natural resources trust	<u>2,986,000</u>	<u>7,222,000</u>
	<u>\$ 85,819,000</u>	<u>\$ 85,728,000</u>

Certain investments including alternative investments are made up of funds of funds that invest primarily in limited partnerships and private investment companies. Investments in limited partnerships are valued at fair value, as determined by the investees' General Partners. Such value generally represents the Company's proportionate share of the Partner's capital of the investment partnerships as reported by their general partners.

Securities with no readily available market are initially valued at cost, with subsequent adjustments to values which reflect either the basis of meaningful third-party transactions in the private market or the fair value deemed appropriate by the general partners of the underlying investment partnership. In such instances, consideration is also given to the financial condition and operating results of the issuer, the amount that the investment partnerships can reasonably expect to realize upon the sale of the securities, and any other factors deemed relevant.

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NOTE 4—INVESTMENTS (Continued)

Securities with readily available markets (listed on a securities exchange or traded in an over-the-counter market) are valued at quoted market prices, or at an appropriate discount from such price if marketability of the securities is limited. The investments in private investment companies are valued at fair value using the net assets valuations provided by the underlying private investment companies, unless management determined another valuation is more appropriate. Substantially all the underlying assets of the limited partnership and private investment companies consist of public equity securities, cash and cash equivalents, and other investments stated at fair value.

Investment securities, in general, are exposed to various risks such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the value of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the consolidated financial statements. Additionally, due to the inherent uncertainty of these valuations, the estimated fair value of investments without a readily determinable fair value may differ from the fair value that would have been used had a ready market existed for the investments, and these differences could be material.

Investment income (loss) during the years ended June 30, 2010 and 2009 follows:

	<u>2010</u>	<u>2009</u>
Income from investment fund:		
Realized gains	\$ 1,850,000	\$ 8,245,000
Unrealized gains (losses)	<u>6,758,000</u>	<u>(30,622,000)</u>
	8,608,000	(22,377,000)
Dividends/interest	<u>1,464,000</u>	<u>2,174,000</u>
Total investment fund income (loss)	<u>\$ 10,072,000</u>	<u>\$ (20,203,000)</u>

The transfer from the investment fund of current and prior period accumulated income amounted to \$5,000,000 and \$5,312,000 for the years ended June 30, 2010 and 2009, respectively. The total investment income from operations was comprised of the following:

	<u>2010</u>	<u>2009</u>
Investment fund – Board authorized	\$ 5,000,000	\$ 5,312,000
Dividends/interest - operations	52,000	56,000
Realized/unrealized gain (loss) - operations	<u>13,000</u>	<u>(25,000)</u>
Total investment income from operations	<u>\$ 5,065,000</u>	<u>\$ 5,343,000</u>

As of June 30, 2010 and 2009, approximately \$30,789,000 and \$19,296,000, respectively, of investments were pledged as collateral against the \$25,000,000 bank line of credit described in Note 7.

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NOTE 5—INVESTMENT FUND

From the inception of the investment fund through June 30, 2010 and 2009, \$180,871,000 and \$168,555,000, including investment income, was received by the Company for the investment fund, respectively, and \$95,052,000 and \$82,827,000, respectively, was expended for operations.

The following summarizes the cumulative activity of the investment fund for the years ended June 30, 2010 and 2009:

	2010	2009
Investment fund revenue including investment income:		
Permanently restricted grants and gifts and cumulative income	\$ 111,353,000	\$ 103,596,000
National Endowment for the Arts (“NEA”) cash reserve fund	1,932,000	1,932,000
Donor-designated programming and facilities projects	21,966,000	21,874,000
Operating fund	45,620,000	41,153,000
Total investment fund income	180,871,000	168,555,000
Deductions:		
Gifts received and expended from permanently restricted and		
Donor-designated funds	81,529,000	79,312,000
Expended from operating fund	13,523,000	3,515,000
Total deductions	95,052,000	82,827,000
	\$ 85,819,000	\$ 85,728,000
Net investment fund balances including investment income:		
Endowment fund	\$ 51,790,000	\$ 46,158,000
NEA cash reserve fund	1,932,000	1,932,000
Operating fund	32,097,000	37,638,000
	\$ 85,819,000	\$ 85,728,000

NOTE 6—PROPERTY AND EQUIPMENT

As of June 30, 2010 and 2009, property and equipment consists of the following:

	2010	2009
Land, building and leasehold improvements	\$ 24,731,000	\$ 22,698,000
Television and other equipment	74,876,000	72,629,000
Construction/work in progress (see below)	875,000	1,926,000
Total cost	100,482,000	97,253,000
Less: Accumulated depreciation and amortization	(69,218,000)	(64,694,000)
Net book value	\$ 31,264,000	\$ 32,559,000

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NOTE 6—PROPERTY AND EQUIPMENT (Continued)

Depreciation and amortization for the years ended June 30, 2010 and 2009 amounted to \$4,575,000 and \$4,718,000, respectively. During the years ended June 30, 2010 and 2009, certain fully depreciated equipment with a total cost of approximately \$51,000 and \$337,000, respectively, was written off. As of June 30, 2009, construction/work in progress consisted primarily of a build-out of WLIW facilities, a build-out of transmission facilities at the former World Trade Center site, and the construction of the studio at Lincoln Center. The construction of the studio at Lincoln Center has been completed in 2010 and the build-out cost for the transmission facilities at the former World Trade Center has been written off amounting to \$1,227,000 as the Company has found a permanent broadcast site. As of June 30, 2010, construction/work in progress consists primarily of a build-out of WLIW facilities. It is expected that the estimated costs to complete this project will approximate \$1,000,000.

NOTE 7—BANK LINE OF CREDIT

At June 30, 2010, the Company has a \$25,000,000 line of credit with a bank, which bears interest at the lower of the London Inter-Bank Offering Rate (“LIBOR”) plus 2% (2.3% as of June 30, 2010) or prime + 1%, at the Company’s discretion. As of June 30, 2010 and 2009, the Company had borrowed \$25,000,000 and \$16,000,000, respectively. Approximately \$30,789,000 and \$19,296,000 of investments as of June 30, 2010 and 2009, respectively, were pledged as collateral against the \$25,000,000 line of credit. Under the terms of the line of credit, the Company is required to meet certain financial covenants, and as of June 30, 2010 and 2009, the Company was in compliance with these covenants.

This line of credit was refinanced on August 10, 2010 with another bank of which \$15,000,000 is a revolving line of credit and \$10,000,000 is a term loan. The \$15,000,000 line of credit bears interest at LIBOR plus .90% and expires on August 10, 2013. The \$10,000,000 term loan bears interest rate at LIBOR plus 1.25% and the principal is repayable in 5 years in equal monthly installments plus interest. As of January 31, 2011, the outstanding borrowings amounted to \$24,167,000, and the Company was in compliance with the covenants required under the new facilities.

NOTE 8—TEMPORARILY RESTRICTED NET ASSETS

As of June 30, 2010 and 2009, temporarily restricted net assets are available for the following purposes:

	<u>2010</u>	<u>2009</u>
Underwriting for designated projects	\$ 44,080,000	\$ 56,748,000
CPB Program Grants	7,218,000	1,146,000
CPB Community Service Grant	7,645,000	5,051,000
PBS Program Services Grants	<u>20,161,000</u>	<u>12,421,000</u>
	<u>\$ 79,104,000</u>	<u>\$ 75,366,000</u>

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NOTE 9—PERMANENTLY RESTRICTED NET ASSETS

As of June 30, 2010 and 2009, permanently restricted net assets consist of the following:

	<u>2010</u>	<u>2009</u>
General Programs	\$ 36,949,000	\$ 33,731,000
Art and Humanities Programs	10,431,000	10,395,000
Social Programs	11,228,000	11,213,000
Education Resources Fund	231,000	231,000
Children's Programs	2,804,000	2,804,000
Science and Nature Programs	1,986,000	2,002,000
News and Public Affairs Programs	<u>1,787,000</u>	<u>1,787,000</u>
	<u>\$ 65,416,000</u>	<u>\$ 62,163,000</u>

NOTE 10—IN-KIND INCOME

During the years ended June 30, 2010 and 2009, the Company received approximately \$11,250,000 and \$6,104,000, respectively, of production in-kind income. These amounts have been calculated based upon the fair value of the services performed as reported to the Company by the donors and are included in the Company's consolidated financial statements as follows:

	<u>2010</u>	<u>2009</u>
Revenues-underwriting for designated projects	<u>\$ 11,250,000</u>	<u>\$ 6,104,000</u>
Expenses:		
National Program Service	\$ 11,250,000	\$ 5,067,000
Broadcast station	-	175,000
Education	<u>-</u>	<u>862,000</u>
	<u>\$ 11,250,000</u>	<u>\$ 6,104,000</u>

NOTE 11—RETIREMENT PLANS

The Company has a defined contribution retirement plan under IRC Section 403(b) for primarily all full-time nonunion employees who have completed two years of service. Under the plan, the Company purchases annuity contracts for each eligible employee who elects to participate in the plan. The Company's minimum contribution rate under the plan is 3% of eligible compensation. In addition, employee contributions will be matched by the Company up to an additional 5% of eligible compensation. Expenses under the plan for the years ended June 30, 2010 and 2009, amounted to \$1,943,000 and \$2,453,000, respectively. The Company's policy is to fund retirement plan costs currently.

Effective July 1, 2010, the Company has the option to make or not to make a discretionary nonelective contribution to an eligible employee retirement account. In addition, the Company's matching contributions was reduced from 5% to 3% of employees' contributions.

In addition, there are several defined contribution plans covering unionized employees. The Company's contribution to these plans is specified by the union collective bargaining agreements and approximated \$891,000 and \$961,000 for the years ended June 30, 2010 and 2009, respectively.

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NOTE 11—RETIREMENT PLANS (Continued)

Further, the Company implemented an IRC Section 457(b) defined contribution retirement plan in July 2004, in which only certain highly compensated employees are eligible to participate. Participants may make voluntary contributions, subject to plan limitations, applicable toward the purchase of retirement annuities. As of June 30, 2010 and 2009, the assets and liabilities related to this plan amounted to approximately \$462,000 and \$583,000, respectively and are included under prepaid expenses and other assets and accounts payable and accrued expenses in the consolidated statements of financial position. The 457(b) plan was terminated on January 1, 2011.

NOTE 12—COMMITMENTS AND CONTINGENCIES

A. The Company has entered into various real estate lease agreements expiring through 2024. In December 1997, as a result of the contracted sale of its building, the Company entered into a 21-year operating lease at 450 West 33rd Street. In April 2003, the Company entered into a 15-year operating lease at the Empire State Building for its transmission facilities. As part of this agreement, annual rent expense increased as the Company began transmitting its digital signal at full power from the Empire State Building. This rent increase has been included in the future minimum rentals.

In November 2008, the Company entered into a 15-year and 5-month operating lease at Lincoln Center for the Performing Arts, Inc. primarily for the studio site of the Company's various programs.

The rent expense incurred under these agreements aggregated to \$6,973,000 and \$5,923,000 for the years ended June 30, 2010 and 2009, respectively.

For the years ended after June 30, 2010, the future minimum rentals under the various real estate lease agreements are as follows:

2011	\$ 7,230,000
2012	7,262,000
2013	7,306,000
2014	7,589,000
2015	7,846,000
Thereafter	<u>35,998,000</u>
	<u>\$ 73,231,000</u>

In addition, these agreements include escalation provisions for real estate taxes and tenant improvements based on changes in the assessed valuation of the property. Additional rent expense incurred under these escalation clauses for the years ended June 30, 2010 and 2009, amounted to \$1,788,000 and \$1,744,000, respectively.

Subsequent to June 30, 2010, the Company entered into sublease agreements with unrelated parties for its office space lease at 450 West 33rd Street. Future minimum rental income from these subleases for the years ended after June 30, 2010 are as follows:

2011	\$ 335,000
2012	5,227,000
2013	5,536,000
2014	5,536,000
2015	5,536,000
Thereafter	<u>16,114,000</u>
	<u>\$ 38,284,000</u>

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NOTE 12—COMMITMENTS AND CONTINGENCIES (Continued)

In August 2010, the Company entered into a 16-year operating lease for its new office space located in New York City. The lease provides a period of free rent and base rental amounts that increase at certain points during the lease term. The estimated construction cost to improve the office leased space is approximately \$11,000,000. In addition, the Company provided a letter of credit amounting to \$5,000,000 upon the execution of the lease, which is secured by restricted cash, and it serves primarily as security in connection with this real property lease. The minimum annual commitments under this lease for years after June 30, 2010 are as follows:

2011	\$	-
2012		3,874,000
2013		4,591,000
2014		4,591,000
2015		4,591,000
Thereafter		<u>57,632,000</u>
	<u>\$</u>	<u>75,279,000</u>

- B. The Company is party to various pending legal proceedings arising in the ordinary course of business. The Company's management and legal counsel have reviewed the probable outcome of these proceedings and the costs and expenses reasonably expected to be incurred. While the outcome of the pending proceedings cannot be predicted with certainty, based on its review, management believes that the liabilities that may result are not likely to have a material effect on the Company's liquidity, financial condition or change in net assets.
- C. The Company receives funding under grants from a variety of organizations. The grant agreements generally contain provisions under which the grantor may audit the books and records of the Company. During the year ended June 30, 2007, a grantor commenced an audit with respect to one grant. The result from this audit did not have a material adverse effect on the Company's liquidity, financial condition or change in net assets for the years ended June 30, 2010 and 2009. A liability was recorded amounting to \$2,028,000 and \$2,322,000 as of June 30, 2010 and 2009, respectively. Such amount is included in accounts payable and accrued expenses in the accompanying consolidated financial statements.
- D. On June 15, 2010, the United States of America (the "Government") filed a civil complaint against the Company's subsidiary, EBC and the Company in the United States District Court for the Southern District of New York pursuant to the federal False Claims Act, 31 U.S.C. Section 3729 (the "Complaint"). That same day, EBC, the Company and the Government entered into a Stipulation and Order of Settlement and Dismissal (the "Stipulation and Order") in settlement of the Complaint. The Stipulation and Order required EBC to (i) pay to the Government \$950,000; (ii) relinquish 13% (approximately \$1,015,000) of the reimbursements with respect to a number of federal grants that had been the subject of an inquiry conducted by the Inspectors General of the National Science Foundation (the "NSF"), the National Endowment for the Humanities (the "NEH") and the National Endowment for the Arts (the "NEA"); and (iii) enter into a compliance plan designed to ensure that the conduct of EBC and its employees will comply with the applicable requirements for recipients of federal grant awards. The Stipulation and Order stated that the Company did not participate in any of the conduct described in the Complaint but as EBC's parent and sole member, the Company agreed to be bound by the terms of the Stipulation and Order as it relates to any injunctive relief and prospective relief.

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NOTE 12—COMMITMENTS AND CONTINGENCIES (Continued)

Background

EBC receives funding under grants from a variety of public and private sources. The grant agreements associated with these grants often contain provisions under which the grantor may audit the books and records of EBC.

In 2008, EBC received a subpoena from the Office of the Inspector General of the NSF, notifying EBC that it had commenced a review of, and requesting information regarding, an NSF grant for \$1,530,000. Subsequently, that review was expanded to include an additional \$9,000,000 in funds from five other NSF grants.

In a December 12, 2008 letter from the Inspectors General of the NSF, the NEA and NEH (collectively, the "IGs"), EBC was advised that the NSF IG had identified several "significant concerns" regarding EBC's use of NSF award funds. As a result, the IGs advised EBC of their belief that EBC's actions violated the federal False Claims Act, 31 U.S.C. Section 3729 and that the IGs would be required to refer the matter to the United States Department of Justice for review. The IGs also requested information from EBC concerning two NEA grants and two NEH grants totaling approximately \$1,200,000 and \$1,120,000, respectively.

On September 25, 2009, EBC was advised that the matter had been referred to the Civil Division of the United States Attorney's Office for the Southern District of New York.

EBC fully cooperated with the IGs and with the Government, through and including the Complaint and Stipulation and Order. As of June 30, 2009, management had accrued an estimated reserve of \$2,000,000 for possible cost disallowances that are included in accounts payable and accrued expenses in the accompanying consolidated financial statements.

- E. Approximately 9% and 10% of the Company's full-time equivalent employees were covered by collective bargaining agreements as of June 30, 2010 and 2009, respectively. The agreements, which cover various periods, stipulate wage levels and differentials, participation in group health and dental plans and certain agreements with regard to paid time off and leave policies, work hours and schedules, personnel policies including grievance, discharge and discipline procedures. A new agreement is currently being negotiated.

NOTE 13—DEFERRED REVENUE

In 2006, the Company entered into an agreement to lease certain of its unused spectrum (bandwidth) to an unrelated third party. The Company recognizes this payment as revenue over 30 years. Included in deferred revenue in the accompanying consolidated financial statements is \$8,179,000 and \$9,737,000 as of June 30, 2010 and 2009, respectively, related to the unamortized portion of this income. For the years ended June 30, 2010 and 2009, approximately \$1,558,000 and \$1,991,000, respectively, was recognized in other income. The amount of amortization for the years ended June 30, 2010 and 2009 was based on an assessment of the deferral made by an outside consultant.

NOTE 14—FAIR VALUE OF FINANCIAL INSTRUMENTS

For financial instruments, including cash equivalents, certain investments, receivables, payables and debt, the carrying amount approximates fair value because of the short maturity of these instruments. The Company believes it is not practicable to estimate the current fair value of the related party receivable because of the related party nature of the transaction (see Note 15).

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NOTE 14—FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Financial assets carried at fair value as of June 30, 2010 are classified in the table in one of the three levels as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total 2010</u>
Investments:				
Cash and money market funds	\$ 7,078,000	\$ -	\$ -	\$ 7,078,000
U.S. equity funds	2,724,000	12,501,000	-	15,225,000
International equity funds	9,206,000	3,349,000	-	12,555,000
Fixed income funds	32,728,000	-	-	32,728,000
TIPS	9,650,000	-	-	9,650,000
Alternative investments	-	-	5,597,000	5,597,000
Natural resources trust	-	<u>2,986,000</u>	-	<u>2,986,000</u>
Total Assets at Fair Value	<u>\$ 61,386,000</u>	<u>\$ 18,836,000</u>	<u>\$ 5,597,000</u>	<u>\$ 85,819,000</u>

Financial assets carried at fair value as of June 30, 2009 are classified in the table in one of the three levels as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total 2009</u>
Investments:				
Cash and money market funds	\$ 7,077,000	\$ -	\$ -	\$ 7,077,000
U.S. equity funds	2,115,000	-	15,316,000	17,431,000
International equity funds	12,081,000	-	4,697,000	16,778,000
Fixed income funds	18,738,000	-	-	18,738,000
TIPS	8,514,000	-	-	8,514,000
Alternative investments	-	-	9,968,000	9,968,000
Natural resources trust	-	-	<u>7,222,000</u>	<u>7,222,000</u>
Total Assets at Fair Value	<u>\$ 48,525,000</u>	<u>\$ -</u>	<u>\$ 37,203,000</u>	<u>\$ 85,728,000</u>

The changes in assets measured at fair value for which the Company has classified Level 3 are as follows:

	<u>2010</u>	<u>2009</u>
Balance at beginning of year	\$ 37,203,000	\$ 44,542,000
Transfer due to adoption of ASU 2009-12	(27,235,000)	-
Purchases	-	19,000,000
Redemptions	(5,000,000)	(11,520,000)
Realized gain (loss)	473,000	(1,955,000)
Unrealized gain (loss)	<u>156,000</u>	<u>(12,864,000)</u>
Balance at end of year	<u>\$ 5,597,000</u>	<u>\$ 37,203,000</u>

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NOTE 15—PROGRAM RESOURCE GROUP

The former president and general manager of WLIW is the founder and Chairman of the Board of the Program Resource Group (“PRG”). PRG is a nonprofit corporation owned by two charter member public television stations, which provides programming services to more than twenty stations, including its members, for a fee. As of June 30, 2010, PRG was in the process of winding down its operation. The Company performed administrative and accounting services for PRG for a minimal fee for the year ended June 30, 2008. As of June 30, 2010 and 2009, the receivable from PRG for programming services, rent, administrative and accounting services and reimbursable expenses included in other assets, totaled approximately \$922,000 for each year, and the reserve was approximately \$859,000 and \$858,000 as of June 30, 2010 and 2009, respectively. The majority of this receivable and reserve arose before the merger with WLIW, L.L.C.

NOTE 16—INVESTMENT IN V-ME, INC.

In September 2006, the Company entered into an agreement with V-Me, Inc., a national Spanish-language television network. The Company agreed to contribute existing and future programming, assist in the promotion of the network, and assist in securing the Spanish-language rights to programs. In exchange for these services, the Company received a 20% equity investment in V-Me, Inc. The Company did not record an asset related to the investment.

In addition, the Company provided certain production services and the use of facilities to V-Me, Inc. As of June 30, 2010 and 2009, the balance due from V-Me, Inc. amounted to approximately \$42,000 and \$1,128,000, net of an allowance for doubtful accounts of \$67,000 and \$1,000,000, respectively.

On April 28, 2009, a promissory note and repayment agreement was executed between V-Me and the Company. The Company’s 20% equity investment in V-Me, Inc. was reduced to 6% as the result of V-Me’s March 2010 refinancing. Separately, the Company received \$1,000,000 to settle V-Me’s indebtedness to the Company.

NOTE 17—ENDOWMENT NET ASSETS

The FASB Staff Position (“FSP”) No. FAS 117-1, now incorporated in ASC 958-205, provides guidance on the net asset classifications of donor-restricted endowment funds for a not-for-profit organization that is subject to the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”). FSP No. FAS 117-1 also improves disclosure about the organization’s endowment funds, whether or not the organization is subject to UPMIFA. UPMIFA has not been enacted in New York State as of June 30, 2010. Therefore, the Company has implemented only the disclosure guidance provided for in FSP No. FAS 117-1. During September 2010, New York State enacted a version of UPMIFA (“NYPMIFA”) that is effective as of September 17, 2010.

The Company with the advice of counsel has interpreted the state law as requiring the preservation of an endowment gift’s historic value measured as of the gift date, absent explicit donor stipulations to the contrary. See Note 21 for how the Company maintains its net assets. In accordance with accounting principles generally accepted in the United States of America, any reduction of the fair value of assets associated with donor restricted endowment funds that falls below the level the donor requires the Company to retain in perpetuity is to be reported in unrestricted net assets.

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NOTE 17—ENDOWMENT NET ASSETS (Continued)

The Company's endowment investment policy is to invest primarily in equities and fixed income based on an asset allocation, approved by the investment committee, to satisfy its overall endowment financial and investment objectives such as to preserve the principal, protect against inflation, receive stable returns and achieve long-term growth. The Company 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). Annual spending from the endowment fund is described in Note 2R. Unless authorized by the Board of Trustees, the appropriations from the endowment should not deplete the historical dollar value of the endowment fund.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Company to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature, if it occurred, are reported in unrestricted net assets. The deficiencies may result from unfavorable market fluctuations that occurred in the economy as a whole that may have affected the donor-restricted endowment fund where the fair market value of the donor-restricted endowment fund fell below the amount that is required to be retained permanently. There were no such deficiencies as of June 30, 2010 and 2009.

Changes in endowment net assets for year ended June 30, 2010 are as follows:

	<u>Unrestricted</u>		<u>Board</u>	<u>Permanently</u>	
	<u>Operations</u>	<u>Nonspendable</u>	<u>Designated</u>	<u>Restricted</u>	<u>Total 2010</u>
Endowment net assets, beginning of year	\$ -	\$ 4,907,000	\$ 1,739,000	\$ 62,163,000	\$ 68,809,000
Contribution to endowments	-	-	-	3,253,000	3,253,000
Investment activity:					
Interest and dividends	52,000	1,464,000	-	-	1,516,000
Realized gain on investments	13,000	1,850,000	-	-	1,863,000
Unrealized gain on investments	-	6,758,000	-	-	6,758,000
Management fees	-	(238,000)	-	-	(238,000)
Total investment activity	65,000	9,834,000	-	-	9,899,000
Board appropriated for expenditure	5,000,000	(5,000,000)	-	-	-
Releases	(5,065,000)	-	-	-	(5,065,000)
Endowment net assets, end of year	\$ -	\$ 9,741,000	\$ 1,739,000	\$ 65,416,000	\$ 76,896,000

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NOTE 17—ENDOWMENT NET ASSETS (Continued)

Changes in endowment net assets for year ended June 30, 2009 are as follows:

	<u>Unrestricted</u>		<u>Board</u>	<u>Permanently</u>	
	<u>Operations</u>	<u>Nonspendable</u>	<u>Designated</u>	<u>Restricted</u>	<u>Total 2009</u>
Endowment net assets, beginning of year	\$ -	\$ 30,817,000	\$ 1,739,000	\$ 60,876,000	\$ 93,432,000
Contribution to endowments	-	-	-	1,287,000	1,287,000
Investment activity:					
Interest and dividends	56,000	2,174,000	-	-	2,230,000
Realized loss on investments	(25,000)	-	-	-	(25,000)
Realized gain on investments	-	8,245,000	-	-	8,245,000
Unrealized loss on investments	-	(30,622,000)	-	-	(30,622,000)
Management fees	-	(395,000)	-	-	(395,000)
Total investment activity	31,000	(20,598,000)	-	-	(20,567,000)
Board appropriated for expenditure	5,312,000	(5,312,000)	-	-	-
Releases	(5,343,000)	-	-	-	(5,343,000)
Endowment net assets, end of year	\$ -	\$ 4,907,000	\$ 1,739,000	\$ 62,163,000	\$ 68,809,000

Endowment net assets of \$76,896,000 and \$68,809,000 as of June 30, 2010 and 2009, respectively, are included in the investments account in the accompanying consolidated statements of financial position.

NOTE 18—CONCENTRATIONS

Financial instruments that potentially subject the Company to a concentration risk include cash held with a bank in excess of Federal Deposit Insurance Corporation ("FDIC") insurance limits by approximately \$7,665,000 and \$6,363,000 as of June 30, 2010 and 2009, respectively. Such amounts include outstanding checks. Effective October 3, 2008, the basic limit on FDIC insurance coverage was increased from \$100,000 to \$250,000 for interest-bearing accounts and unlimited for noninterest-bearing accounts. The unlimited protection is only available at insured depository institutions that continue to participate in the Transaction Account Guarantee ("TAG") program. The program is temporary and was changed by the FDIC on December 31, 2010, as further described below.

Effective January 1, 2010, the Company's major depository bank opted out of the TAG program and as such, the Company's funds held in noninterest-bearing transaction accounts with this bank will no longer be guaranteed in full under the TAG program but will be insured up to \$250,000 under the FDIC's general deposit insurance rules. However, beginning December 31, 2010 through December 31, 2012, deposits held in noninterest-bearing accounts will be fully insured, regardless of the amount in the account, at all FDIC insured institutions.

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AND SUBSIDIARIES
CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2010
(With Comparative Totals for June 30, 2009)

	<u>For the Year Ended June 30, 2010</u>				
	<u>Supporting Services</u>			<u>Total</u>	<u>Total</u>
	<u>Program</u>	<u>Management</u>			
<u>Services</u>	<u>Fundraising</u>	<u>and</u> <u>Administrative</u>		<u>2010</u>	<u>2009</u>
Salaries and wages	\$ 31,655,000	\$ 5,605,000	\$ 8,997,000	\$ 46,257,000	\$ 60,108,000
Benefits and payroll taxes	7,598,000	1,236,000	2,392,000	11,226,000	13,337,000
Professional fundraising	-	1,030,000	-	1,030,000	1,013,000
Accounting and legal fees	445,000	95,000	611,000	1,151,000	3,449,000
Supplies and premiums	280,000	1,885,000	30,000	2,195,000	2,830,000
Telephone and transmission	1,442,000	499,000	523,000	2,464,000	2,696,000
Postage, delivery and fulfillment	779,000	1,046,000	29,000	1,854,000	3,216,000
Rent	6,158,000	730,000	1,725,000	8,613,000	7,744,000
Utilities	666,000	92,000	346,000	1,104,000	1,328,000
Insurance	437,000	83,000	196,000	716,000	757,000
Security and fire safety	236,000	48,000	135,000	419,000	574,000
General building maintenance	394,000	74,000	201,000	669,000	711,000
Equipment rentals, purchase and maintenance	832,000	46,000	543,000	1,421,000	2,080,000
Printing and publications	535,000	602,000	56,000	1,193,000	2,378,000
Travel and business expense	1,588,000	253,000	136,000	1,977,000	4,431,000
Interest expense	342,000	70,000	165,000	577,000	393,000
Depreciation and amortization	3,831,000	214,000	530,000	4,575,000	4,718,000
Advertising and promotion	684,000	36,000	30,000	750,000	2,281,000
Dues and PBS assessments	11,892,000	1,000	20,000	11,913,000	12,055,000
Program production and acquisition costs	50,512,000	495,000	-	51,007,000	53,716,000
Miscellaneous expenses	1,098,000	2,295,000	662,000	4,055,000	5,980,000
TOTAL EXPENSES	\$ 121,404,000	\$ 16,435,000	\$ 17,327,000	\$ 155,166,000	\$ 185,795,000

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FOR THE YEAR ENDED JUNE 30, 2009

	<u>Program Services</u>	<u>Supporting Services</u>		<u>Total 2009</u>
		<u>Fundraising</u>	<u>Management and Administrative</u>	
Salaries and wages	\$ 41,437,000	\$ 7,866,000	\$ 10,805,000	\$ 60,108,000
Benefits and payroll taxes	8,895,000	1,732,000	2,710,000	13,337,000
Professional fundraising	-	1,013,000	-	1,013,000
Accounting and legal fees	530,000	91,000	2,828,000	3,449,000
Supplies and premiums	454,000	2,257,000	119,000	2,830,000
Telephone and transmission	1,426,000	756,000	514,000	2,696,000
Postage, delivery and fulfillment	1,350,000	1,790,000	76,000	3,216,000
Rent	5,576,000	817,000	1,351,000	7,744,000
Utilities	745,000	102,000	481,000	1,328,000
Insurance	489,000	98,000	170,000	757,000
Security and fire safety	314,000	59,000	201,000	574,000
General building maintenance	447,000	83,000	181,000	711,000
Equipment rentals, purchase and maintenance	1,296,000	63,000	721,000	2,080,000
Printing and publications	1,218,000	1,037,000	123,000	2,378,000
Travel and business expense	3,677,000	562,000	192,000	4,431,000
Interest expense	253,000	51,000	89,000	393,000
Depreciation and amortization	3,992,000	254,000	472,000	4,718,000
Advertising and promotion	2,100,000	103,000	78,000	2,281,000
Dues and PBS assessments	12,019,000	14,000	22,000	12,055,000
Program production and acquisition costs	50,879,000	2,833,000	4,000	53,716,000
Miscellaneous expenses	775,000	2,838,000	2,367,000	5,980,000
TOTAL EXPENSES	\$ 137,872,000	\$ 24,419,000	\$ 23,504,000	\$ 185,795,000