WNET AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
(Together with Independent Auditors' Report)

YEARS ENDED JUNE 30, 2018 AND 2017

MARKS PANETH

ACCOUNTANTS & ADVISORS

WNET and SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
(Together with Independent Auditors' Report)

YEARS ENDED JUNE 30, 2018 AND 2017

CONTENTS

Page

Independent Auditors' Report....................1-2

Consolidated Financial Statements:

Consolidated Statements of Financial Position 3

Consolidated Statements of Activities....................4

Consolidated Statements of Cash Flows....................5

Notes to Consolidated Financial Statements....................6-21

Supplemental Information:

Consolidated Schedules of Functional Expenses 22-23

Marks Paneth LLP
685 Third Avenue
New York, NY 10017
P 212.503.8800
F 212.370.3759
markspaneth.com

MARKS PANETH
ACCOUNTANTS & ADVISORS

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of WNET

We have audited the accompanying consolidated financial statements of WNET and Subsidiaries (collectively, the "Company") which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of WNET and Subsidiaries as of June 30, 2018 and 2017 and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental schedules of functional expenses (shown on pages 22 and 23) are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Marks Paneth LLP

New York, NY
November 28, 2018

WNET and SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2018 AND 2017

	2018	2017
ASSETS		
Cash and cash equivalents (Notes 2C and 17)	$ 20,795,000	$ 18,005,000
Investments (Notes 2D, 4, and 16)	164,331,000	122,079,000
Accounts receivable, net (Note 2K)	2,789,000	2,619,000
Grants and gifts receivable, net (Notes 2J, 2K and 3)	80,396,000	83,955,000
Costs incurred for programs not yet telecast (Note 2E)	16,405,000	14,731,000
Prepaid expenses and other assets (Notes 5 and 15)	10,137,000	10,211,000
Property and equipment, net (Notes 2F and 6)	20,448,000	21,853,000
Intangible assets (Note 2H)	14,754,000	13,554,000
TOTAL ASSETS	$ 330,055,000	$ 287,007,000
LIABILITIES		
Accounts payable and accrued expenses (Notes 2I, 2L and 12A)	$ 23,720,000	$ 24,815,000
Deferred revenue (Note 13)	3,799,000	5,616,000
TOTAL LIABILITIES	27,519,000	30,431,000
COMMITMENTS AND CONTINGENCIES (Note 12)		
NET ASSETS (Note 2B)		
Unrestricted:		
Operations	23,284,000	20,862,000
Appropriated investment earnings (Note 14)	5,079,000	4,713,000
Board designated (Notes 14 and 18)	28,997,000	22,230,000
Total unrestricted	57,360,000	47,805,000
Temporarily restricted (Note 8):		
Program restricted	133,245,000	103,584,000
Unappropriated investment earnings (Note 14)	22,897,000	19,367,000
Total temporarily restricted	156,142,000	122,951,000
Permanently restricted (Notes 9 and 14)	89,034,000	85,820,000
TOTAL NET ASSETS	302,536,000	256,576,000
TOTAL LIABILITIES AND NET ASSETS	$ 330,055,000	$ 287,007,000

WNET and SUBSIDIARIES
CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	For the Year Ended June 30, 2018				For the Year Ended June 30, 2017			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total 2018**	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total 2017**
OPERATING REVENUE AND OTHER SUPPORT (Note 2O)**:**								
Contributions and underwriting for designated projects (Notes 2J and 10)	$ 42,733,000	$ 91,620,000	$ -	$ 134,353,000	$ 42,216,000	$ 83,637,000	$ -	$ 125,853,000
New York State grant	6,533,000	-	-	6,533,000	6,767,000		-	6,767,000
Nonbroadcast sales and service fees (Note 2M)	14,618,000	-	-	14,618,000	12,337,000	-	-	12,337,000
Investment activity (Note 4)	4,755,000	-	-	4,755,000	4,507,000	-	-	4,507,000
Other income (Notes 2N and 13)	1,403,000	-	-	1,403,000	952,000	-	-	952,000
Sub-total operating revenue and other support	70,042,000	91,620,000	-	161,662,000	66,779,000	83,637,000	-	150,416,000
Net assets released from restrictions (Note 2B):								
Underwriting for designated projects	33,486,000	(33,486,000)	-	-	42,253,000	(42,253,000)	-	-
CPB program grants	2,488,000	(2,488,000)	-	-	5,178,000	(5,178,000)	-	-
CPB community service grant	12,500,000	(12,500,000)	-	-	12,000,000	(12,000,000)	-	-
PBS program service grants	13,485,000	(13,485,000)	-	-	21,631,000	(21,631,000)	-	-
Total net assets released from restrictions	61,959,000	(61,959,000)	-	-	81,062,000	(81,062,000)	-	-
				-				-
TOTAL OPERATING REVENUE AND OTHER SUPPORT	132,001,000	29,661,000	-	161,662,000	147,841,000	2,575,000	-	150,416,000
OPERATING EXPENSES:								
Program services (Note 10):								
National and local programming	61,266,000	-	-	61,266,000	77,523,000	-	-	77,523,000
Broadcast station	26,149,000	-	-	26,149,000	26,088,000	-	-	26,088,000
Education	2,017,000	-	-	2,017,000	2,051,000	-	-	2,051,000
WEB services	2,360,000	-	-	2,360,000	2,795,000	-	-	2,795,000
Total program services	91,792,000	-	-	91,792,000	108,457,000	-	-	108,457,000
Fundraising:								
Membership	11,676,000	-	-	11,676,000	11,246,000	-	-	11,246,000
Marketing and Development	8,187,000	-	-	8,187,000	8,903,000	-	-	8,903,000
Total fundraising	19,863,000	-	-	19,863,000	20,149,000	-	-	20,149,000
Management and administration services	18,174,000	-	-	18,174,000	17,738,000	-	-	17,738,000
TOTAL OPERATING EXPENSES	129,829,000	-	-	129,829,000	146,344,000	-	-	146,344,000
CHANGE IN NET ASSETS FROM OPERATIONS	2,172,000	29,661,000	-	31,833,000	1,497,000	2,575,000	-	4,072,000
NON-OPERATING ACTIVITIES AND SUPPORT (Note 2O)**:**								
Endowment contributions	-	-	3,214,000	3,214,000	-	-	9,463,000	9,463,000
Board designated contributions (Note 2B)	6,767,000	-	-	6,767,000	7,700,000	-	-	7,700,000
Non-cash license contributions (Note 2H)	1,200,000	-	-	1,200,000	-	-	-	-
Investment activity, net (Note 4)	-	8,609,000	-	8,609,000	-	12,229,000	-	12,229,000
Appropriated investment activity (Note 4)	366,000	(5,079,000)	-	(4,713,000)	245,000	(4,713,000)	-	(4,468,000)
Lease restoration costs (Note 12A II)	(967,000)	-	-	(967,000)	-	-	-	-
Participation in net surplus (loss) in Centralcast LLC (Note 15)	17,000	-	-	17,000	(41,000)	-	-	(41,000)
CHANGE IN NET ASSETS FROM NON-OPERATING ACTIVITIES	7,383,000	3,530,000	3,214,000	14,127,000	7,904,000	7,516,000	9,463,000	24,883,000
CHANGE IN NET ASSETS	9,555,000	33,191,000	3,214,000	45,960,000	9,401,000	10,091,000	9,463,000	28,955,000
Net Assets - Beginning of Year	47,805,000	122,951,000	85,820,000	256,576,000	38,404,000	112,860,000	76,357,000	227,621,000
NET ASSETS - END OF YEAR	$ 57,360,000	$ 156,142,000	$ 89,034,000	$ 302,536,000	$ 47,805,000	$ 122,951,000	$ 85,820,000	$ 256,576,000

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

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 45,960,000	$ 28,955,000
Adjustments to reconcile change in net assets to net cash provided by (used by) operating activities:		
Depreciation and amortization	3,681,000	3,846,000
Loss on disposal of property and equipment	113,000	54,000
Bad debt expense	-	222,000
Non-cash license contributions	(1,200,000)	-
Endowment contributions	(3,214,000)	(9,463,000)
Equity (Gain)/Loss on the investment in Centralcast LLC	(17,000)	41,000
Realized Gains on investments	(4,257,000)	(93,000)
Unrealized Gains on investments	(3,700,000)	(11,427,000)
Subtotal	37,366,000	12,135,000
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable	(170,000)	(534,000)
Grants and gifts receivable	3,559,000	(17,340,000)
Costs incurred for programs not yet telecast	(1,674,000)	634,000
Prepaid expenses and other assets	91,000	(840,000)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(549,000)	15,000
Deferred revenue	(1,817,000)	617,000
Net Cash Provided by (Used by) Operating Activities	36,806,000	(5,313,000)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment purchases and reinvested income	(61,310,000)	(12,536,000)
Proceeds from sales of investments	27,015,000	13,193,000
Purchase of property and equipment	(2,389,000)	(2,060,000)
Net Cash Used by Investing Activities	(36,684,000)	(1,403,000)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Endowment contributions	3,214,000	9,463,000
Repayment of annuity obligations	(546,000)	(503,000)
Net Cash Provided by Financing Activities	2,668,000	8,960,000
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,790,000	2,244,000
Cash and cash equivalents - beginning of year	18,005,000	15,761,000
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 20,795,000	$ 18,005,000
Supplemental Disclosure of Cash Flow Information:		
Non-cash license contributions	$ 1,200,000	$ -

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

NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES

WNET ("WNET" or the "Company") is a New York education corporation chartered by the Board of Regents of the University of the State of New York on April 15, 2008. Its mission is to acquire, distribute, and, through its controlled subsidiaries, THIRTEEN Productions LLC ("THIRTEEN Productions"), WLIW LLC ("WLIW"), Creative News Group LLC ("CNG") and Interactive Engagement Group LLC ("IEG"), produce public educational television programs. WNET is the sole member of THIRTEEN Productions, WLIW, CNG and IEG. WNET serves the entire New York City metropolitan area with unique local and national productions, broadcasts and innovative educational projects. WNET's goal is to create media experiences of lasting significance for New York, America and the world. On March 20, 2009, WNET received a final determination letter from the Internal Revenue Service granting it tax-exempt status under Section 501(c)(3) of the Internal Revenue Code.

Formed in 1961, Educational Broadcasting Corporation ("EBC") was a New York education corporation chartered by the Board of Regents of the University of the State of New York. WNET, through EBC, produced public television programs individually and in collaboration with other entities and broadcast such programs on Channel 13, Channel 21 and on other public television stations throughout the United States. On June 22, 2010, EBC changed its name to THIRTEEN. On June 30, 2013, THIRTEEN was consolidated with and into WNET, with WNET as the surviving entity. Also on June 30, 2013, THIRTEEN Productions was created and the production assets formerly held by THIRTEEN were contributed to THIRTEEN Productions. THIRTEEN Productions produces public television programs. THIRTEEN Productions is a Delaware limited liability company.

In 2003, EBC acquired the assets of the Long Island Educational TV Council, Inc. and transferred those assets to WLIW. In 2008, EBC transferred its sole ownership of WLIW to WNET. WLIW produces public television programs for broadcast on Channel 13, Channel 21 and on other public television stations throughout the United States. WLIW is a Delaware limited liability company.

In 2008, WNET acquired CNG. CNG produces public television programs for broadcast on Channel 13, Channel 21 and on other public television stations throughout the United States. CNG is a New York limited liability company.

In April 2009, IEG (formerly, WNET.ORG Properties LLC) was formed to administer the interactive media and web programming of the Company. IEG is a Delaware limited liability company.

In 2011, the Company, through its sole member WLIW, established Public Media NJ, Inc. ("PMNJ"), a New Jersey nonprofit corporation. PMNJ entered into an agreement with the New Jersey Public Broadcasting Authority to provide certain operational, fundraising and back-office services and public television programs, including New Jersey-centric programming specifically designed to meet the needs of the citizens of New Jersey. PMNJ commenced operations on July 1, 2011. Prior to December 6, 2012, WLIW was the sole member of PMNJ; effective December 6, 2012, WNET (the sole member of WLIW) became the sole member of PMNJ.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. ***Basis of Accounting*** – The accompanying consolidated financial statements of the Company have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The consolidated financial statements of the Company include the accounts of WNET and its subsidiaries, THIRTEEN Productions, WLIW, CNG, IEG and PMNJ. All intercompany balances have been eliminated. Also, the Company's consolidated financial statement amounts are rounded to the nearest thousand.

B. ***Net Asset Presentation*** – The Company classifies its support as unrestricted, temporarily restricted or permanently restricted depending upon the absence or existence of donor-imposed restrictions or stipulations.

   Unrestricted represents those resources that have no donor restrictions as to their use or the donor imposed restrictions have expired. The Company has a policy whereby the first $500,000 of an unrestricted planned gift from a single donor is used to fund current operations; the remainder is added to the board designated fund. In addition, any excess above an annual planned giving target may, at the discretion of the Company be included in the board designated fund.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Temporarily Restricted consist of two things: (A) donor-imposed restrictions that specifies the use of the support and is satisfied either through the passage of time or by the Company's actions. 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; and, (B) earnings from permanently restricted funds that are not otherwise donor restricted and under NYS Law, have not yet been appropriated by the Board.

Permanently Restricted: 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. Appropriated earnings on permanently restricted net assets are available for various programs as described in Note 9.

C. ***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.

D. ***Investments*** – Investments are stated at fair value. Fair value for investments traded publicly is based on published market prices. Fair value for 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.

E. ***Costs 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, if any are released.

F. ***Property and Equipment*** – Property and equipment is recorded at cost less accumulated depreciation and amortization. The amounts do not purport to represent replacement or recoverable values. The Company capitalizes computer equipment with a cost of $750 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. Depreciation is calculated using the straight-line method over the useful lives of the assets, ranging from 3 to 40 years. Expenditures for leasehold improvements are capitalized and amortized over the shorter of the life of the asset or the lease term.

G. ***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 the years ended June 30, 2018 and 2017.

H. ***Intangible Assets –*** Intangible assets of $14,754,000 consist of three components. The first component relates to the 1961 Channel Thirteen purchase and amounts to $5,854,000. This amount resulted from the excess of the purchase price over the net tangible assets (resulting in goodwill) of Channel Thirteen and the acquisition of its broadcast license. The second component relates to the 2003 purchase of the WLIW broadcast license and amounts to $7,700,000. The third component relates to the contributions in 2018 of two commercial licenses of Class A television stations both licensed to New York, New York which are valued at $600,000 each.

Intangible assets have not been amortized as permitted by U.S. GAAP. In the opinion of the Company, both the excess purchase price over the net tangible assets and the 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, 2018 and 2017.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. ***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. 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, 2018 and 2017, a liability of $2,674,000 and $2,917,000, respectively, is 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, 2018 and 2017, the trust assets were $4,694,000 and $5,009,000, respectively.

J. ***Contributions Gifts and Grants*** – Contributions, gifts and grants are recognized as revenue when they are received or unconditionally pledged. When such amounts are payable by the donor in more than one year they are discounted to present value using a risk adjusted rate of return commensurate with the length of the pledge. The amortization of the discount is reflected as additional contribution revenue in the accompanying consolidated financial statements.

   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.

   Under U.S. GAAP, nonprofit organizations are required to reflect contribution revenue in the year received despite the fact that, at times, certain of these contributions are purpose restricted and the expenditures to accomplish the purpose do not occur until a subsequent period. It is this accounting methodology that can cause significant differences in the change in net assets between years.

K. ***Allowance for Doubtful Accounts*** – Accounts receivable represents money owed the Company arising from licensing and programming fees, nonbroadcast sales, facility rental and reimbursement for expenses. 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. As of June 30, 2018 and 2017, the allowance for doubtful accounts receivable amounted to $414,000, and the allowance for doubtful accounts for grants and gifts receivable amounted to $550,000 for each year.

L. ***Deferred Rent*** – The Company leases real property under operating leases expiring at various dates in the future (see Note 12A). 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 recorded for the years ended June 30, 2018 and 2017 amounted to a decrease of $350,000 and $257,000, respectively. Straight-lining of rent gives rise to a timing difference that is reflected within accounts payable and accrued expenses in the accompanying consolidated statements of financial position. As of June 30, 2018 and 2017, such deferrals amounted to $6,199,000 and $6,549,000, respectively.

M. ***Nonbroadcast Sales –*** Nonbroadcast sales are generated primarily from home video sales, streaming services, download to own, video on demand and royalties. Revenue from royalties is recognized, net of royalties payable, upon notification from the third party distributor. Home video sales and other sales are recorded as earned.

N. ***Other Income –*** Other income is generated from facility rental fees and reimbursement for expenses. Additionally, during the years ended June 30, 2018 and 2017, the Company recognized revenue from the licensing of its unused Nextwave spectrum (see Note 13).

O. ***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, non-recurring items, and investment income, including realized and unrealized gains and losses, earned in excess of the Company's authorized spending policy, unconditional bequests and planned gifts received from donors in excess of $500,000, and the Company's equity interest in Centralcast, LLC, are recognized as non-operating activities and support.

NOTE 2 –SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. ***Use of Estimates –*** The preparation of consolidated financial statements in accordance with U.S. GAAP requires the Company to make estimates and assumptions that affect the reported amounts of assets, as well as liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period.

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, other than in a forced sale or liquidation. 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, 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.

Transfers between levels may occur for a variety of reasons including, but not limited to changes in the availability of quotes and changes in trading volumes. Transfers between levels are recognized at the beginning of the reporting period in which they occur. There are no transfers into and out of each level of the fair value hierarchy for assets measured at fair value for the year ended June 30, 2018.

Investments measured at net asset value (as reported by external managers) as a practical expedient for the fair value are excluded from the fair value hierarchy.

R. ***Investment Spending Policy*** – The Company's Board has approved 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 five fiscal years as long as unappropriated investment earnings are available.

NOTE 3 – GRANTS AND GIFTS RECEIVABLE

The Company has unconditional grants and gifts receivable as follows as of June 30:

	2018	2017
Amount due in less than one year	$ 48,136,000	$ 56,011,000
Amount due from one to five years	31,787,000	29,386,000
Amount due after five years	2,824,000	424,000
	82,747,000	85,821,000
Less: Unamortized discount to present value	(1,801,000)	(1,316,000)
Allowance for doubtful accounts	(550,000)	(550,000)
	$ 80,396,000	$ 83,955,000

The pledges to be received after one year are discounted to present value at interest rates ranging from 0.62% to 2.60%.

NOTE 4 – INVESTMENTS

The major classes of investments are as follows as of June 30:

	2018	2017
Cash and money market funds	$ 44,587,000	$ 8,924,000
U.S. equity	33,771,000	24,136,000
International equity funds	29,891,000	22,339,000
Fixed income funds	15,855,000	16,561,000
Government backed Treasury Inflation Protected Securities ("TIPS")	7,236,000	7,264,000
Alternative investments-hedge funds and fund of funds	29,883,000	40,114,000
Natural resources trust	3,108,000	2,741,000
	$ 164,331,000	$ 122,079,000

Certain investments including alternative investments are made up of hedge fund of funds that invest primarily in limited partnerships and private investment companies. Investments in limited partnerships are generally carried 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. The investments in private investment companies are valued at fair value using the net asset 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, bonds, cash and cash equivalents, and other investments stated at fair value.

Alternative investments include investments in hedge funds whose objective is to provide investors with compound annual long-term returns that are superior to the broad market averages while having less risk than the overall stock market. The agreements underlying these investments limit the Company's ability to liquidate its interest in such investments for a period of time.

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.

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.

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 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.

NOTE 4 – INVESTMENTS (Continued)

Investment activity consists of the following for the years ended June 30:

	2018	2017
Income from investment fund:		
Realized gains	$ 4,257,000	$ 93,000
Unrealized gains	3,700,000	11,427,000
Net realized and unrealized gains	7,957,000	11,520,000
Dividends/interest	1,645,000	1,464,000
Sub-total investment fund income	9,602,000	12,984,000
Less investment fees	(993,000)	(755,000)
Net	$ 8,609,000	$ 12,229,000

The transfer from the investment fund of current and prior period accumulated income amounted to $4,713,000 and $4,468,000 for the years ended June 30, 2018 and 2017, respectively. The total investment activity from operations was comprised of the following:

	2018	2017
Investment fund - Board authorized	$ 4,713,000	$ 4,468,000
Dividends/interest - operations	56,000	30,000
Realized/unrealized (loss) gain - operations	(14,000)	9,000
Total Investment income for operations	$ 4,755,000	$ 4,507,000

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.

Financial assets carried at fair value as of June 30, 2018, are classified in the table in one of the three levels as follows:

	Level 1	Level 2	Level 3	Total 2018
Investments:				
Cash and money market funds	$ 44,587,000	$ -	$ -	$ 44,587,000
U.S. equity	4,986,000	28,785,000	-	33,771,000
International equity funds	18,308,000	11,583,000	-	29,891,000
Fixed income funds	15,855,000	-	-	15,855,000
TIPS	7,236,000	-	-	7,236,000
Alternative investments - hedge funds and fund of funds	-	-	29,883,000	29,883,000
Natural resources trust	-	3,108,000	-	3,108,000
Total Assets at Fair Value	$ 90,972,000	$ 43,476,000	$ 29,883,000	$ 164,331,000

NOTE 4 – INVESTMENTS (Continued)

Financial assets carried at fair value as of June 30, 2017 are classified in the table in one of the three levels as follows:

	Level 1	Level 2	Level 3	Total 2017
Investments:				
Cash and money market funds	$ 8,924,000	$ -	$ -	$ 8,924,000
U.S. equity	4,526,000	19,610,000	-	24,136,000
International equity funds	17,601,000	4,738,000	-	22,339,000
Fixed income funds	16,561,000	-	-	16,561,000
TIPS	7,264,000	-	-	7,264,000
Alternative investments - hedge funds and fund of funds	-	-	40,114,000	40,114,000
Natural resources trust	-	2,741,000	-	2,741,000
Total Assets at Fair Value	$ 54,876,000	$ 27,089,000	$ 40,114,000	$ 122,079,000

The changes in assets for the years ended June 30, 2018 and 2017 measured at fair value for which the Company has classified as Level 3 are as follows:

	2018	2017
Balance at beginning of year	$ 40,114,000	$ 30,601,000
Purchases	1,500,000	6,000,000
Redemptions and fees	(14,833,000)	(726,000)
Realized gain	2,442,000	-
Unrealized gain	660,000	4,239,000
Balance at end of year	$ 29,883,000	$ 40,114,000

NOTE 5 – PREPAID EXPENSES AND OTHER ASSETS

Prepaid expenses and other assets consist of the following as of June 30:

	2018	2017
Charitable remainder trusts and other	$ 5,642,000	$ 5,324,000
Prepaid insurance, membership premiums and other (Note 15)	4,495,000	4,887,000
	$ 10,137,000	$ 10,211,000

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following as of June 30:

	2018	2017
Land	$ 1,363,000	$ 1,363,000
Building and improvements	2,344,000	2,252,000
Leasehold improvements	16,339,000	16,412,000
Broadcast, transmission and other equipment	29,640,000	31,670,000
Construction in progress (see below)	1,563,000	803,000
Total cost	51,249,000	52,500,000
Less: Accumulated depreciation and amortization	(30,801,000)	(30,647,000)
Net book value	$ 20,448,000	$ 21,853,000

Depreciation and amortization expense for the years ended June 30, 2018 and 2017 amounted to $3,681,000 and $3,846,000, respectively. During the years ended June 30, 2018 and 2017, certain property and equipment with a total cost of approximately $3,640,000 and $666,000, respectively, and accumulated depreciation and amortization of approximately $3,527,000 and $612,000, respectively, were written off. The result of the write offs amounted to a loss on disposal of $113,000 and $54,000 for the years ended June 30, 2018 and 2017, respectively.

As of June 30, 2018, the construction in progress represents the upgrade, replacement and installation of the Company's transmission facilities, including the costs associated to comply with the Federal Communications Commission (FCC) channel reassignments for WNET and WLIW. It also includes the relocation of the transmission site of WLIW for an opportunity to maximize or broaden its geographic flexibility for local programming. The estimated cost to complete these projects will be approximately $1,800,000.

The Congressionally-mandated spectrum incentive auction involved a repacking, reorganization of the broadcasting television bands, and the opportunity to maximize or broaden the over-the-air reach of broadcast coverage. WNET and WLIW stations have been involuntarily reassigned to new TV channels as part of the repacking pursuant to the *Auction 1000 Closing and Channel Reassignment Public Notice* released on April 13, 2017. WNET and WLIW stations have incurred costs and will continue to incur costs for new equipment or modifications to existing equipment, engineering studies, construction services to operate on the new channels, and to maximize the broadcast coverage. The incentive auction statute provides that the FCC will reimburse up to 90% of the estimated costs that are reasonably incurred. The Company received a total reimbursement of $268,000 for the year ended June 30, 2018.

NOTE 7 – BANK LINE OF CREDIT

The Company has a $15,000,000 unsecured line of credit with a bank, bearing interest at LIBOR plus 1.75% with an unused line of credit rate of 0.20%. This line expires on March 31, 2020. There are no outstanding borrowings on this line of credit as of June 30, 2018 and 2017 and November 28, 2018. This line of credit is guaranteed by THIRTEEN Productions.

Under the terms of the line of credit, the Company is required to meet certain financial covenants, and as of June 30, 2018 and 2017, the Company was in compliance with these covenants.

NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS

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

	2018	2017
Underwriting for designated projects	$ 77,944,000	$ 63,174,000
CPB program grants	1,096,000	1,112,000
CPB community service grant	14,996,000	17,062,000
PBS program services grants	39,209,000	22,236,000
Unappropriated investment earnings (Note 14)	22,897,000	19,367,000
	$ 156,142,000	$ 122,951,000

NOTE 9 – PERMANENTLY RESTRICTED NET ASSETS

Income from the permanently restricted net assets is for the following as of June 30:

	2018	2017
General programs	$ 45,381,000	$ 45,118,000
Art and humanities programs	11,182,000	11,132,000
Social programs	11,337,000	11,337,000
Education resources fund	762,000	362,000
Children's programs	2,804,000	2,804,000
Science and nature programs	9,446,000	9,445,000
News and public affairs programs	7,622,000	5,122,000
Campaign Arts and Culture	500,000	500,000
	$ 89,034,000	$ 85,820,000

NOTE 10 – IN-KIND INCOME

During the years ended June 30, 2018 and 2017, the Company received approximately $4,297,000 and $13,447,000, respectively, of in-kind income. These amounts have been calculated based upon the fair value of the in-kind provided and production services performed by the donors and are included in the Company's consolidated financial statements as follows:

	2018	2017
Revenues:		
Contributions and underwriting for designated projects	$ 4,297,000	$ 13,447,000
Expenses:		
National Program Service	$ 4,297,000	$ 13,447,000

NOTE 11 – RETIREMENT PLANS

A. 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. The Company provides a matching contribution up to 3% (increased to 4% effective January 1, 2018) of the employee's compensation that is contributed (elective deferral) by the employee to its retirement account. In addition, the employer may choose to make a discretionary contribution equivalent to 3% of the employee's compensation. Company pension plan payments under the plan for the years ended June 30, 2018 and 2017, amounted to $907,000 and $766,000, respectively. The Company's policy is to fund retirement plan costs currently.

B. The Company contributes to a number of multiemployer defined benefit pension plans under the terms of collective-bargaining agreements that cover its union-represented employees. The risks of participating in these multiemployer plans are different from single-employer plans in the following aspects:

- Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
- If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- If the Company chooses to stop participating in some of its multiemployer plans, the Company may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

NOTE 11 – RETIREMENT PLANS (Continued)

The Company's participation in these plans is outlined in the table below. The "EIN/Pension Plan Number" column provides the Employee Identification Number ("EIN") and the three-digit plan number. The most recent Pension Protection Act ("PPA") zone status available in 2017 and 2016 are for the plan years noted below, which include the plans funded percentage. The zone status is based on information that the Company received from the plans and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in the yellow zone are less than 80 percent funded, and plans in the green zone are at least 80 percent funded. The significance of entering critical status is that the Plan's Trustees are required by law to adopt a "rehabilitation plan," consistent with the requirements of the PPA, designed to improve the Plan's financial health and to allow it to emerge from critical status.

The "FIP/RP Status Pending/Implemented" column indicates plans for which a financial improvement plan ("FIP") or a rehabilitation plan ("RP") is either pending or has been implemented. The table below lists the expiration date(s) of the collective-bargaining agreement(s) to which the plans are subject. The Company has no plans to withdraw.

The Company's contribution to these plans is specified by the union collective bargaining agreements and approximated $851,000 and $805,000 for the years ended June 30, 2018 and 2017, respectively.

Pension Plan Name	Employer Identification Number/Plan Number	PPA Zone Status		FIP/RP Status Pending/ Implemented	Surcharge Imposed	Collective Bargaining Agreement Expiration Dates	Critical Status	
		2017	2016				2017	2016
American Federation of Musicians & Employers' Pension Fund	51-6120204/001	Red	Yellow	Yes	Yes	A	Yes	Yes
AFTRA Retirement Fund	13-6414972/001	Green	Green	N/A	No	B	No	No
Directors Guild of America – Producer Pension Plan	95-2892780/001	Green	Green	N/A	No	C	No	No
Radio, Television Recording Arts Pension	13-6159229/001	Red	Red	Yes	Yes	D	Yes	Yes
Pension Fund of Local No. One, I.A.T.S.E.	13-6414973/001	Green	Green	N/A	No	E	No	No
Annuity Fund of Local No. One, I.A.T.S.E.	13-3022965/001	Green	Green	N/A	No	E	No	No
Producer – Writers Guild of America Pension Plan	95-2216351/001	Green	Green	N/A	No	F	No	No

Footnotes:

A. The Collective Bargaining Agreement ("CBA") between THIRTEEN Productions and the American Federation of Musicians will expire on May 31, 2019. The funded percentage as of April 1, 2017 and 2016 is projected to be 64.5% and 69.0%, respectively. The Plan remains in critical status since it fails to meet the requirement under IRC Section 432(e)(4)(2) to emerge from critical status as the Plan is projected to have an accumulated funding deficiency for the plan year ending March 31, 2019.

NOTE 11 – RETIREMENT PLANS (Continued)

B. THIRTEEN Productions is a party to three CBAs with SAG-AFTRA PTV Local, SAG-AFTRA PTV National and SAG-AFTRA Staff. The agreement with SAG-AFTRA PTV Local renews automatically at the beginning of each year. The agreement with SAG-AFTRA PTV National will expire on July 20, 2021. The agreement with SAG-AFTRA Staff expired on August 31, 2001. However, THIRTEEN Productions has an ongoing obligation in accordance with the last negotiated agreement.

C. The CBA between THIRTEEN Productions and the Directors Guild of America will expire on January 31, 2021.

D. THIRTEEN Productions and WLIW are both parties to the CBA. THIRTEEN Productions agreement with IBEW has been ratified by the union's member and will expire on April 30, 2020 but will be signed by THIRTEEN Productions upon approval of the Company's obligations to the pension plan. WLIW's agreement will expire on June 30, 2019 and is not a contributor to the plan. For the Plan year ended December 31, 2017, the Plan was in critical and declining status because there was a deficiency in the Funding Standard Account for the current year. The Plan is expected to become insolvent in the 2029 Plan Year. Such insolvency may result in benefit reductions.

E. THIRTEEN Productions and CNG are parties to the CBA. The agreement with Thirteen Productions expired on January 31, 2017 and the agreement with CNG will expire on March 28, 2020. THIRTEEN Productions has an ongoing obligation in accordance with the last negotiated agreement.

F. The CBA between THIRTEEN Productions and the Writers Guild of America originally expired on June 30, 2014. The agreement has been extended for a two year period through June 30, 2016, and further extended through June 30, 2019.

NOTE 12 – COMMITMENTS AND CONTINGENCIES

A. The Company has entered into various real estate lease agreements expiring through 2026:

   I. In December 1997, the Company entered into a 21-year operating lease at 450 West 33rd Street in NYC for its office and other programming space. In August 2010, the Company entered into a 16-year operating lease for its new office space at 825 Eighth Avenue in NYC and vacated (but sublet space) its 450 West 33rd Street site. The Company made significant modifications to its leased space at 450 West 33rd Street in NYC and the lease obligated the Company to restore the space to its original condition at the end of the lease term. An accrual for this potential restoration liability was made in June 2013, amounting to approximately $4,500,000.

   In 2011, the Company entered into two sublease agreements with unrelated parties for its old office space lease at 450 West 33rd Street in NYC.

   In December 2014, the Company entered into an Assignment and Assumption of the lease including the two subleases at 450 West 33rd Street. By entering into this agreement, the Company reduced its future potential financial liability as it is no longer a tenant or sublandlord at 450 West 33rd Street. In addition, the restoration costs for 450 West 33rd Street were negotiated from approximately $4,500,000 to $1,500,000, payable in four equal yearly installments of $375,000 through 2018. All restoration obligations have been fully paid as of June 30, 2018.

NOTE 12 – COMMITMENTS AND CONTINGENCIES (Continued)

In consideration of the acceptance of lease assignment by the landlord, the Company remains obligated to pay rent, real estate tax, and its proportionate share of operating expenses in excess of what the landlord will collect or credit from the subtenants until November 2018 for any portion of the old office space that has not been surrendered by the subtenants according to the terms of the Assignment and Assumption agreement. In August 2018, the landlord indicated that the last subtenant vacated the space at 450 West 33rd Street on July 31, 2018. As of November 28, 2018, the Company is waiting to receive a release notice from the landlord.

In August 2010, the Company entered into a 16-year operating lease at 825 Eighth Avenue for its office and other programming space. It provides a period of free rent and base rental amounts that increase at certain points during the lease term. In addition, the Company has a letter of credit amounting to $2,000,000, which serves primarily as security in connection with this real property lease.

II. 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. The lease expired in April 2018 and due to delays related to the facility at One World Trade Center ("OWTC"), the Company paid holdover rent through August 31, 2018 to Empire State Building. In September 2018, the Company completed the restoration of the space and vacated the premises at Empire State Building. The estimated restoration costs included in the accompanying statements of financial position and statements of activities amounted to $874,000 and $967,000, respectively, as of and for the year ended June 30, 2018.

As of December 28, 2015, the Company entered into a ten-year lease (plus an option for renewal) at OWTC for its new transmission facilities and a ten-year lease (plus an option for renewal) at Four Times Square ("4TS") for its backup transmission facility. The Company agreed to move its transmission facilities from the Empire State Building to OWTC no later than April 2018, and the Company is not responsible for paying its license fee at either OWTC or 4TS until the end of its operating lease at the Empire State Building. Due to delays in construction, the Company was not able to begin broadcasting at OWTC until July 6, 2018. In order to compensate the Company for the delay and the resulting holdover costs at Empire State Building, the landlord agreed that the Company shall not pay rent at both OWTC and 4TS for one-year commencing on the receipt of a certificate of occupancy for the OWTC facility from the landlord, which was received on July 6, 2018.

On August 20, 2018, the Company also entered into a lease at OWTC for transmission facilities for WLIW. The backup transmission facility will remain at Plainview on Long Island, NY. The lease shall end on the same date as the agreements for THIRTEEN Productions at OWTC and 4TS, which were each extended by fifteen months as part of the negotiations for WLIW. The Company agreed to move its primary transmission facilities for WLIW from the Plainview facility to OWTC as part of the post-FCC Spectrum Auction "repacking" process, during which the FCC has granted stations the opportunity to "maximize," or broaden its reach of over-the-air broadcast coverage. WLIW shall receive six months of free rent at OWTC.

III. 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.

IV. On October 15, 2014, PMNJ entered into a new lease agreement with a third party for a studio facility located in Newark, New Jersey with a lease term of five years and three months from the commencement date of the lease.

V. On February 26, 2015, THIRTEEN Productions entered into a two-year and seven-month operating lease with a third party for one of its production in Washington, D.C. The lease expired and was terminated in conjunction with the related production.

The rent expense incurred under all rent agreements aggregated to $6,925,000 and $6,204,000 for the years ended June 30, 2018 and 2017, respectively.

NOTE 12 – COMMITMENTS AND CONTINGENCIES (Continued)

For the years ended after June 30, 2018, the future minimum rentals under the various real estate lease agreements follows:

2019	$	6,771,000
2020		7,466,000
2021		7,569,000
2022		8,041,000
2023		8,220,000
Thereafter		26,584,000
	$	64,651,000

In addition, these agreements include escalation provisions for real estate taxes and building 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, 2018 and 2017, amounted to $791,000 and $1,318,000, respectively.

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. As of June 30, 2018 and 2017, approximately 7% of the Company's full-time equivalent employees were covered by collective bargaining agreements for each year. 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. New agreements are currently being negotiated.

D. The Company believes it has no uncertain tax positions as of June 30, 2018 and 2017 in accordance with Accounting Standards Codification ("ASC") Topic 740 ("Income Taxes"), which provides standards for establishing and classifying any tax provisions for uncertain tax positions.

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 $1,795,000 and $2,202,000 as of June 30, 2018 and 2017, respectively, related to the unamortized portion of this income. For the years ended June 30, 2018 and 2017, approximately $407,000 and $488,000, respectively, was recognized in other income.

The amount of amortization for the years ended June 30, 2018 and 2017 was based on an assessment of the deferral made by an outside consultant.

NOTE 14 – ENDOWMENT NET ASSETS

The Company adheres to the New York Prudent Management of Institutional Funds Act ("NYPMIFA"). NYPMIFA creates a rebuttable presumption of imprudence if an organization appropriates more than 7% of a donor-restricted permanent endowment fund's fair value (averaged over a period of not less than the preceding five years) in any year. In addition, in accordance with U.S. GAAP, any unappropriated earnings on endowment funds that would otherwise be considered unrestricted by the donor should be reflected as temporarily restricted until appropriated by the Board of Trustees.

The Company's Board of Trustees, on advice of counsel, understood the state law as allowing the Company to appropriate for expenditure or accumulate so much of an endowment fund as the Company determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. Unless stated otherwise in the gift instrument, the assets in an endowment fund shall be donor-restricted assets until appropriated for expenditure by the Board of Trustees. The policy for valuing the Company's investments is described in Note 2D.

NOTE 14 – ENDOWMENT NET ASSETS (Continued)

The Company's endowment investment policy is to invest in funds of funds consisting 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. 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.

The asset allocation plan provides for diversification of assets in an effort to maximize the investment return and manage the risk of the Company consistent with market conditions. 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).

In accordance with U.S. GAAP, institutions are required to disclose any deterioration of the fair value of assets associated with donor-restricted endowment funds that fall below the level the donor requires the organization to retain in perpetuity. The Company had not incurred such deficiencies in its endowment funds as of June 30, 2018 and 2017.

Changes in endowment net assets for the year ended June 30, 2018 are as follows:

	Unrestricted			Temporarily Restricted			
	Operations	Appropriated Investment Earnings	Board Designated	Unappropriated Investment Earnings	Program Restricted	Permanently Restricted	Total 2018
Endowment net assets, beginning of year	$ -	$ 4,713,000	$ 22,230,000	$ 19,367,000	$1,029,000	$ 85,820,000	$ 133,159,000
Contributions to the fund (Note 2B)	-	-	6,767,000	-	-	3,214,000	9,981,000
Investment activity:							
Dividends and interest	56,000	-	-	1,645,000	-	-	1,701,000
Realized gain (loss) on investments	(3,000)	-	-	4,257,000	-	-	4,254,000
Unrealized gain (loss) on investments	(11,000)	-	-	3,700,000	-	-	3,689,000
Management fees	-	-	-	(993,000)	-	-	(993,000)
Total investment activity	42,000	-	-	8,609,000	-	-	8,651,000
Board appropriated for expenditure	-	5,079,000	-	(5,079,000)	-	-	-
Releases	4,713,000	(4,713,000)	-	-	-	-	-
Used in operations	(4,755,000)	-	-	-	-	-	(4,755,000)
Endowment net assets, end of year	$ -	$ 5,079,000	$ 28,997,000	$ 22,897,000	$1,029,000	$ 89,034,000	$ 147,036,000

NOTE 14 – ENDOWMENT NET ASSETS (Continued)

Changes in endowment net assets for the year ended June 30, 2017 are as follows:

	Unrestricted			Temporarily Restricted			
	Operations	Appropriated Investment Earnings	Board Designated	Unappropriated Investment Earnings	Program Restricted	Permanently Restricted	Total 2017
Endowment net assets, beginning of year	$ -	$ 4,468,000	$ 14,530,000	$ 11,851,000	$1,029,000	$ 76,357,000	$ 108,235,000
Contributions to the fund (Note 2B)	-	-	7,700,000	-	-	9,463,000	17,163,000
Investment activity:							
Dividends and interest	30,000	-	-	1,464,000	-	-	1,494,000
Realized gain on investments	9,000	-	-	93,000	-	-	102,000
Unrealized gain on investments	-	-	-	11,427,000	-	-	11,427,000
Management fees	-	-	-	(755,000)	-	-	(755,000)
Total investment activity	39,000	-	-	12,229,000	-	-	12,268,000
Board appropriated for expenditure	-	4,713,000	-	(4,713,000)	-	-	-
Releases	4,468,000	(4,468,000)	-	-	-	-	-
Used in operations	(4,507,000)	-	-	-	-	-	(4,507,000)
Endowment net assets, end of year	$ -	$ 4,713,000	$ 22,230,000	$ 19,367,000	$1,029,000	$ 85,820,000	$ 133,159,000

Endowment net assets of $147,036,000 and $133,159,000 as of June 30, 2018 and 2017, respectively, are included in the investments and grants and gifts receivable accounts in the accompanying consolidated statements of financial position.

NOTE 15 – CENTRALCAST LLC

Centralcast LLC ("Centralcast") is a Delaware limited liability company comprised of eight public broadcasting corporations (the "Members") that serve New York State through a broad range of noncommercial television and radio programming. Each Member is an organization described in Section 501(c)(3) of the Internal Revenue Code. WNET is one of the Members and has a 22% equity interest in Centralcast. Centralcast operates a joint master control facility that enables the Members and others to disseminate educational programming in a collaborative and efficient manner. Centralcast's joint master control facility became fully operational in July 2014. WNET pays service fees to Centralcast which are calculated on a standard basis in accordance with the level of service required by WNET.

The asset related to the Centralcast investment is recorded under the equity method of accounting and is included in prepaid expenses and other assets, and amounted to $1,142,000 and $1,125,000 as of June 30, 2018 and 2017, respectively.

NOTE 16 – INVESTMENT IN V-ME, INC.

In September 2006, EBC entered into an agreement with V-Me, Inc. ("V-Me"), a national Spanish–language television network. EBC 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, EBC initially received a 20% equity investment in V-Me. On June 30, 2013, EBC transferred its ownership of V-Me to WNET. The Company's ownership interest has since been reduced to approximately 0.4% due to investment by other shareholders and the sale of a portion of the Company's ownership interest pursuant to the exercise of certain "tag-along" rights. The Company did not record an asset related to the investment.

In addition, the Company previously provided certain production services and the use of facilities to V-Me, Inc., and continues to provide transmission related services. As of June 30, 2018 and 2017, there is no balance due from V-Me, Inc.

NOTE 17 – CONCENTRATIONS

Cash and cash equivalents that potentially subject the Company to a concentration of credit risk include cash accounts with banks that exceed the Federal Deposit Insurance Corporation ("FDIC") insurance limits. Cash and cash equivalent accounts are insured up to $250,000 per depositor. As of June 30, 2018 and 2017, there was approximately $20,784,000 and $16,528,000, respectively, of cash and cash equivalents held by two banks that exceeded FDIC limits. Such excess amounts include outstanding checks.

NOTE 18 – BOARD DESIGNATED FUNDS

The Company received major planned gifts that were in excess of $500,000 for each donor amounting to $6,767,000 and $7,700,000 during the years ended June 30, 2018 and 2017, respectively. This excess was added to the board designated fund in accordance with the Company policy.

NOTE 19 – SUBSEQUENT EVENTS

The Company evaluated subsequent events through November 28, 2018 which is the date the consolidated financial statements were available to be issued. No material subsequent events were noted that required disclosure in or adjustment to the consolidated financial statements.

WNET and SUBSIDIARIES
CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018
(With Comparable Totals for June 30, 2017)

	For the Year Ended June 30, 2018				
		Supporting Services			
	Program Services	Fundraising	Management and Administrative	Total 2018	Total 2017
EXPENSES:					
Salaries and wages	$ 26,949,000	$ 6,325,000	$ 9,690,000	$ 42,964,000	$ 42,333,000
Benefits and payroll taxes	6,034,000	1,353,000	1,991,000	9,378,000	9,420,000
Program production, acquisition and consulting costs	29,307,000	2,092,000	1,000,000	32,399,000	49,504,000
Dues and PBS assessments	13,481,000	3,000	18,000	13,502,000	13,602,000
Rent	6,609,000	808,000	1,179,000	8,596,000	8,087,000
Utilities	549,000	86,000	296,000	931,000	900,000
Accounting, legal and other professional fees	-	1,561,000	1,099,000	2,660,000	2,793,000
Supplies and premiums	151,000	2,666,000	10,000	2,827,000	1,985,000
Telephone and transmission	2,051,000	1,141,000	561,000	3,753,000	3,830,000
Postage, delivery and fulfillment	347,000	1,125,000	14,000	1,486,000	1,551,000
Insurance	310,000	83,000	197,000	590,000	599,000
Security and fire safety	179,000	46,000	82,000	307,000	296,000
General building maintenance	1,110,000	54,000	114,000	1,278,000	488,000
Equipment rentals, purchase and maintenance	556,000	33,000	488,000	1,077,000	1,155,000
Printing and publications	256,000	821,000	5,000	1,082,000	1,082,000
Travel and business	1,471,000	272,000	175,000	1,918,000	2,690,000
Depreciation and amortization	2,534,000	353,000	794,000	3,681,000	3,846,000
Advertising and promotion	692,000	111,000	322,000	1,125,000	1,008,000
Bad debt	-	-	-	-	222,000
Write off/loss on disposal of fixed assets	113,000	-	-	113,000	54,000
Miscellaneous	60,000	930,000	139,000	1,129,000	899,000
TOTAL EXPENSES	92,759,000	19,863,000	18,174,000	130,796,000	146,344,000
Less: Lease restoration costs	(967,000)	-	-	(967,000)	-
TOTAL OPERATING EXPENSES	$ 91,792,000	$ 19,863,000	$ 18,174,000	$ 129,829,000	$ 146,344,000

WNET and SUBSIDIARIES
CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017

	For the Year Ended June 30, 2017			
		Supporting Services		
	Program Services	Fundraising	Management and Administrative	Total 2017
EXPENSES:				
Salaries and wages	$ 26,695,000	$ 6,434,000	$ 9,204,000	$ 42,333,000
Benefits and payroll taxes	6,086,000	1,390,000	1,944,000	9,420,000
Program production, acquisition and consulting costs	45,695,000	2,566,000	1,243,000	49,504,000
Dues and PBS assessments	13,582,000	2,000	18,000	13,602,000
Rent	6,178,000	798,000	1,111,000	8,087,000
Utilities	545,000	90,000	265,000	900,000
Accounting, legal and other professional fees	75,000	1,621,000	1,097,000	2,793,000
Supplies and premiums	63,000	1,906,000	16,000	1,985,000
Telephone and transmission	2,132,000	1,236,000	462,000	3,830,000
Postage, delivery and fulfillment	342,000	1,187,000	22,000	1,551,000
Insurance	318,000	86,000	195,000	599,000
Security and fire safety	177,000	48,000	71,000	296,000
General building maintenance	373,000	18,000	97,000	488,000
Equipment rentals, purchase and maintenance	578,000	55,000	522,000	1,155,000
Printing and publications	267,000	808,000	7,000	1,082,000
Travel and business	1,966,000	480,000	244,000	2,690,000
Depreciation and amortization	2,770,000	401,000	675,000	3,846,000
Advertising and promotion	560,000	32,000	416,000	1,008,000
Bad debt	-	222,000	-	222,000
Write off/loss on disposal of fixed assets	53,000	-	1,000	54,000
Miscellaneous	2,000	769,000	128,000	899,000
TOTAL EXPENSES	$ 108,457,000	$ 20,149,000	$ 17,738,000	$ 146,344,000