



SingerLewak

Accountants & Consultants

**COMMUNITY TELEVISION OF SOUTHERN CALIFORNIA
(KCET)
(A NONPROFIT ORGANIZATION)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2010**

COMMUNITY TELEVISION OF SOUTHERN CALIFORNIA
(KCET)
(A NONPROFIT ORGANIZATION)
CONTENTS
June 30, 2010

	Page
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
Statement of Financial Position	2
Statement of Activities	3
Statement of Cash Flows	4
Notes to Financial Statements	5 – 20



LLP

www.SingerLewak.com

Los Angeles
Orange County
Woodland Hills
Monterey Park
San Diego
Silicon Valley

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Community Television of Southern California (KCET)
(A Nonprofit Organization)
Los Angeles, California

We have audited the accompanying statement of financial position of Community Television of Southern California ("KCET" or the "Organization") as of June 30, 2010, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Community Television of Southern California (KCET) as of June 30, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 12 to the financial statements, the Organization announced its intention to leave Public Broadcasting Service ("PBS") effective January 1, 2011.

SingerLewak LLP

SingerLewak LLP

Los Angeles, California
November 16, 2010



**COMMUNITY TELEVISION OF SOUTHERN CALIFORNIA
(KCET)**

**(A NONPROFIT ORGANIZATION)
STATEMENT OF FINANCIAL POSITION
June 30, 2010**

ASSETS

Current assets

Cash and cash equivalents	\$ 2,804,524
Grants and contributions receivable (Note 3)	3,885,767
Investments (Note 4)	1,002,884
Accounts receivable, net of allowance for doubtful accounts of \$52,314	<u>1,679,807</u>

Total current assets 9,372,982

Property, plant and equipment, net (Note 5 and Note 7)	22,692,465
Grants and contributions receivable, net (Note 3)	1,927,679
Investments (Note 4)	523,200
Restricted investments (Note 4)	5,365,822
Beneficial interest in charitable remainder trust (Note 4)	196,323
Prepaid expenses and other assets	<u>146,734</u>

Total assets \$ 40,225,205

LIABILITIES AND NET ASSETS

Current liabilities

Accounts payable	\$ 4,312,352
Accrued expenses	1,648,177
Advances under grant agreements	164,009
Certificates of participation, current portion (Note 7)	900,000
Charitable gift annuities payable, current portion (Note 4)	<u>55,536</u>

Total current liabilities 7,080,074

Certificates of participation, net of current portion (Note 7)	1,425,000
Deferred PBS fee payable, net of current portion (Note 8)	2,793,196
Charitable gift annuities payable, net of current portion (Note 4)	<u>307,694</u>

Total liabilities 11,605,964

Commitments and contingencies (Note 9)

Net assets (Note 10)

Unrestricted	9,827,348
Temporarily restricted	14,530,109
Permanently restricted	<u>4,261,784</u>

Total net assets 28,619,241

Total liabilities and net assets \$ 40,225,205

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

COMMUNITY TELEVISION OF SOUTHERN CALIFORNIA
(KCET)
(A NONPROFIT ORGANIZATION)
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue				
Contributions, grants and contracts	\$ 29,155,037	\$ 7,978,927	\$ 445,577	\$ 37,579,541
Community service grants	4,505,850	-	-	4,505,850
Facility rentals and other earned income	1,998,740	-	-	1,998,740
Net realized and unrealized gains on investments	13,932	325,371	-	339,303
License and royalty revenue	217,559	-	-	217,559
Change in value of split-interest agreements	-	(27,283)	-	(27,283)
Net assets released from restrictions	13,015,839	(12,615,839)	(400,000)	-
Total support and revenue	48,906,957	(4,338,824)	45,577	44,613,710
Functional expenses				
Program services				
Programming and production	33,123,189	-	-	33,123,189
Transmission	4,997,741	-	-	4,997,741
Public information	2,133,303	-	-	2,133,303
Total program services	40,254,233	-	-	40,254,233
Supporting services				
Fundraising and development	7,707,010	-	-	7,707,010
General and administrative	5,814,997	-	-	5,814,997
Total functional expenses	53,776,240	-	-	53,776,240
Change in net assets	(4,869,283)	(4,338,824)	45,577	(9,162,530)
Net assets, beginning of year	14,696,631	18,868,933	4,216,207	37,781,771
Net assets, end of year	\$ 9,827,348	\$ 14,530,109	\$ 4,261,784	\$ 28,619,241

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

COMMUNITY TELEVISION OF SOUTHERN CALIFORNIA

(KCET)

(A NONPROFIT ORGANIZATION)

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2010

Cash flows from operating activities	
Change in net assets	\$ (9,162,530)
Adjustments to reconcile change in net assets to net cash used in operating activities	
Depreciation and amortization	3,098,095
Allowance for doubtful accounts	10,480
Revenue from barter transactions	(1,648,275)
Expenses relating to barter transactions	1,648,275
Contributions restricted for long-term investment	(445,577)
Net realized and unrealized losses (gains) on investments	(339,303)
Change in value of split-interest agreements	27,283
Changes in operating assets and liabilities	
Grants, contributions and accounts receivable	3,173,428
Prepaid expenses and other assets	(114,564)
Accounts payable	918,662
Accrued expenses	(336,665)
Advances under grant agreements	(63,700)
Deferred PBS fee payable	<u>2,793,196</u>
Net cash used in operating activities	<u>(441,195)</u>
Cash flows from investing activities	
Net purchase of investments	(650,814)
Purchases of property, plant and equipment	<u>(637,485)</u>
Net cash used in investing activities	<u>(1,288,299)</u>
Cash flows from financing activities	
Repayments on certificates of participation	(675,000)
Repayments on loans payable	(121,813)
Contributions restricted for long-term investment	<u>445,577</u>
Net cash used in financing activities	<u>(351,236)</u>
Net decrease in cash balances	(2,080,730)
Cash and cash equivalents, beginning of year	<u>4,885,254</u>
Cash and cash equivalents, end of year	<u>\$ 2,804,524</u>
Supplemental disclosure of cash flow information	
Cash paid during the year for interest	<u>\$ 477,850</u>

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

COMMUNITY TELEVISION OF SOUTHERN CALIFORNIA
(KCET)
(A NONPROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 1 – GENERAL

Community Television of Southern California (“KCET” or the “Organization”) is a nonprofit corporation that commenced television broadcasting as Station KCET, Channel 28, on September 28, 1964. KCET is an independent media organization that provides a wide range of unique and valuable programs and services to the diverse communities it serves. KCET’s primary source of revenue is grants and contributions from individuals. Additional revenue is received from contributions, grants and contracts from corporations, foundations, and the Corporation for Public Broadcasting (“CPB”), as well as from earned income.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets, as follows:

- *Unrestricted net assets* – Net assets that are not subject to donor-imposed restrictions and that may be expendable for any purpose in performing the primary objectives of the Organization.
- *Temporarily restricted net assets* – Net assets subject to donor-imposed restrictions that may or will be met either by actions of the Organization and/or the passage of time. As the restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying financial statements as net assets released from restrictions. Donor-restricted contributions received and expended in the same reporting period are recorded as unrestricted support.
- *Permanently restricted net assets* – Net assets subject to donor-imposed restrictions requiring that the amounts contributed be invested in perpetuity. The investment income generated from these funds is available for general support of the Organization’s programs and operations.

Cash and Cash Equivalents

The Organization classifies cash and all short-term highly liquid investments purchased with original maturities of three months or less to be cash and cash equivalents.

COMMUNITY TELEVISION OF SOUTHERN CALIFORNIA
(KCET)
(A NONPROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

The Organization's investments are reflected on the statement of financial position at fair value. Changes in unrealized gains and losses resulting from changes in fair value are reflected in the statement of activities. The Organization's investments consist of cash, fixed income, equities and other investments.

The Organization's investments are generally publicly traded on national securities exchanges and have readily available quoted market values. There are also certain investments which market value is based on market values of observable or underlying assets.

Dividend and interest income are accrued when earned. Dividend and interest income earned from unrestricted investments are recorded as unrestricted. Income from permanently restricted investments is recorded as temporarily restricted, except where the instructions of the donor specify otherwise.

The Organization also holds an ownership interest in land, which is reflected on the statement of financial position at fair value at date of donation. The Organization reviews interest in land for impairments whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. Recoverability is measured by a comparison of the carrying value of the asset to future net cash flows, undiscounted and without interest, expected to be generated by the asset. If such asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset. During 2010, there were no events or changes in circumstances indicating that the carrying amount of interest in land may not be recoverable.

Contributions

KCET recognizes unconditional promises to give in the period received at net present value.

Conditional promises to give that are conditional upon future events or future matching are not recorded until the condition has been satisfied. If funds are received from such gifts, they are recorded as refundable advances until the condition is satisfied. When the condition has been satisfied, the gift is recognized as either unrestricted or temporarily restricted revenue depending on the intent of the donor.

Production Costs and Grants

Production costs are expensed as incurred. Direct production costs are funded by grants from PBS, CPB, corporations, foundations, individuals, and federal, state and other governmental agencies. Amounts received under PBS, CPB and governmental grants related to productions are recorded as advances and recognized as revenue as the related costs are incurred. Grants from corporations and foundations are recorded as contributions as described above.

COMMUNITY TELEVISION OF SOUTHERN CALIFORNIA

(KCET)

(A NONPROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Trade Transactions

KCET enters into underwriting trade agreements with businesses to provide goods and/or services in trade for underwriting credit. Trade revenues and expenses are recognized at the date of commitment. Trade revenues and expenses totaled \$1,648,275 for the year ended June 30, 2010.

Contributed Goods

The value of significant contributed goods is reflected as contribution revenue with a corresponding expense in the accompanying financial statements at the fair market value of such goods at the date of contribution. Contributed goods totaled \$55,181 for the year ended June 30, 2010.

Property, Plant and Equipment

Property, plant and equipment are stated at cost or, if contributed, at market value at the date of the contribution.

Depreciation is calculated using the straight-line basis over estimated useful lives of the assets as follows:

Studios, buildings and improvements	25 to 50 years
Building (at transmitter site)	10 years
Antenna, transmitter and other broadcasting and studio equipment	5 to 15 years
Furniture, fixtures and automobiles	5 to 10 years

The amortization expense on assets acquired under capital leases is included with depreciation expense on owned assets.

Contributions received that are temporarily restricted for capital projects are classified as temporarily restricted net assets; those restrictions expire when the capital projects are placed in service by KCET.

KCET reviews property, plant and equipment for impairments whenever events or changes in circumstances indicate that the carrying value of property, plant and equipment may not be recoverable. Recoverability is measured by a comparison of the carrying value of the asset to future net cash flows, undiscounted and without interest, expected to be generated by the asset. If such asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset. During 2010, there were no events or changes in circumstances indicating that the carrying amount of property, plant and equipment may not be recoverable.

**COMMUNITY TELEVISION OF SOUTHERN CALIFORNIA
(KCET)**

**(A NONPROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS**

June 30, 2010

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Split-interest Agreements

The Organization is the beneficiary of charitable remainder trusts, for which its beneficial interest is expressed as either a percentage or a dollar amount of the trusts' assets fair value. Trust assets are recorded at net present value, discounted using a market interest rate at each year-end and an annual yield over the remaining life expectancy of the donors.

The Organization is also the beneficiary of charitable gift annuities which the Organization records as assets, although these assets are held in a custodial account at a financial institution. The Organization records these assets, which are held as investments, at fair value at each year-end, and records an annuity payment liability for an amount equal to the present value of the estimated future cash flows to be distributed to the income beneficiaries over their expected lives. The difference between the fair value of the assets received and the annuity payment liability is recognized as revenue.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Management's estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on management's estimates.

Concentration of Credit Risk

KCET receives grants from corporations, federal agencies, foundations, public television agencies, and state and local agencies. KCET has developed long-term relationships with many of its grantors and continually evaluates their financial position to determine the risk of uncollectible grants. As of June 30, 2010, two grantors comprised 94% of the Organization's outstanding total net grants and contributions receivable balances and no grantor made up 10% or more of the total support and revenue for the year ended June 30, 2010.

KCET places its cash and cash equivalents with high-credit, quality financial institutions. At times, such cash and cash equivalents may be in excess of the Federal Deposit Insurance Corporation insurance limit of \$250,000.

COMMUNITY TELEVISION OF SOUTHERN CALIFORNIA
(KCET)
(A NONPROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising Costs

The Organization expenses advertising and promotional costs as incurred. Advertising expenses for the year ended June 30, 2010 totaled approximately \$1,864,604. Of those advertising expenses, \$1,648,275 for the year ended June 30, 2010 originated through barter transactions.

Income Taxes

KCET is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code and is generally not subject to federal or state income taxes.

However, KCET is subject to income taxes on any net income that is derived from a trade or business, regularly carried on, and not in furtherance of the purposes for which it was granted exemption; and KCET does engage in certain activities that are statutorily defined as an unrelated business. For the year ended June 30, 2010, KCET had federal net operating loss carryforwards of approximately \$9.8 million. Generally, federal statutes allow carryforwards of a net operating loss to 20 years following the loss year. For net operating losses incurred in tax years beginning before August 6, 1997, the loss may be carried forward 15 years following the loss year.

Effective July 1, 2009, the Organization adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 740, “Uncertainty in Income Taxes.” In accordance with ASC 740, the Organization recognizes the impact of tax positions in the financial statements if that position is more likely than not to be sustained on audit, based on the technical merits of the position. To date, the Organization has not recorded any uncertain tax positions or potential interest and penalties associated with uncertain tax positions.

Recently Adopted Accounting Pronouncements

In June 2009, the FASB issued ASC Topic No. 105, “The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles – a replacement of FASB Statement No. 162” (“ASC 105”). ASC 105 replaces SFAS 162, “The Hierarchy of Generally Accepted Accounting Principles,” and establishes the FASB Accounting Standards Codification (the “Codification”) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with generally accepted accounting principles (“GAAP”). The FASB will no longer issue new standards in the form of Statements, FASB Staff Positions or Emerging Issues Task Force Abstracts; instead the FASB will issue Accounting Standards Updates.

**COMMUNITY TELEVISION OF SOUTHERN CALIFORNIA
(KCET)**

**(A NONPROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS
June 30, 2010**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Adopted Accounting Pronouncements (Continued)

Accounting Standards Updates will not be authoritative in their own right as they will only serve to update the Codification. The issuance of ASC 105 and the Codification does not change GAAP. ASC 105 became effective for the Organization for the year ended June 30, 2010. The adoption of ASC 105 had no impact on the Organization's financial statements. However, because the Codification completely replaces existing standards, it has affected the way GAAP is referenced by the Organization in its financial statements.

Recently Issued Accounting Pronouncements

In January 2010, the FASB issued ASU 2010-06, "Fair Value Measurements and Disclosures (Topic 820)." This guidance amends the disclosure requirements related to recurring and nonrecurring fair value measurements and requires new disclosures on the transfers of assets and liabilities between Level 1 and Level 2 of the fair value measurement hierarchy, including the reasons and the timing of the transfers. Additionally, the guidance requires a rollforward of activities on purchases, sales, issuance and settlements of the assets and liabilities measured using Level 3 measurements.

The guidance became effective for the reporting period beginning January 1, 2010, except for the disclosure on the rollforward activities for Level 3 fair value measurements, which will become effective for the reporting period beginning January 1, 2011. Management has not yet assessed the impact ASU 2010-06, but does not believe it will have a material effect on its financial statements.

NOTE 3 – GRANTS AND CONTRIBUTIONS RECEIVABLE

Grants and contributions receivable at June 30, 2010 are expected to be collected as follows:

Less than one year	\$ 3,885,767
One year to five years	<u>1,936,250</u>
	5,822,017
Less discount to reflect grants and contributions receivable at present value	<u>8,571</u>
Total	<u>\$ 5,813,446</u>
Current receivables	\$ 3,885,767
Noncurrent receivables, net	<u>1,927,679</u>
Total	<u>\$ 5,813,446</u>

COMMUNITY TELEVISION OF SOUTHERN CALIFORNIA

(KCET)

(A NONPROFIT ORGANIZATION)

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE 4 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

The Organization applies the principles of ASC 820, “Fair Value Measurements and Disclosures,” which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. ASC 820 provides guidance on how to measure fair value by providing a hierarchy used to classify the source of information.

ASC 820 establishes a three-level valuation hierarchy of valuation techniques that is based on observable and unobservable inputs. Classification within the hierarchy is determined based on the lowest level of input that is significant to the fair value measurement. The first two inputs that may be used to measure fair value are considered observable and the last unobservable; together they include the following:

- Level 1 – Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 – Include other inputs that are directly or indirectly observable in the marketplace.
- Level 3 – Unobservable inputs which are supported by little or no market activity.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. For the fiscal year ended June 30, 2010, the application of valuation techniques applied to similar assets and liabilities has been consistent. The following is a description of the valuation methodologies used for instruments measured at fair value:

Investment in Equity and Money Market Securities

The fair value of equity and money market securities is the market value based on quoted market prices. They are classified within Level 1 of the fair value hierarchy.

Investment in Fixed Income Securities

For certain investments, market value is based on quoted market prices. These are classified as Level 1 of the valuation hierarchy. There are also certain investments which market value is based on market values of observable or underlying assets. These are classified within Level 2 of the fair value hierarchy.

COMMUNITY TELEVISION OF SOUTHERN CALIFORNIA

(KCET)

(A NONPROFIT ORGANIZATION)

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE 4 – INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

Beneficial Interests in Charitable Remainder Trust

The Organization's beneficial interest in charitable remainder trust is expressed as either a percentage or a dollar amount of the trusts' assets' fair value. The present value of the remainder is revalued each year-end based on the trusts' assets' current fair market value, current market interest rate and an annual yield of 7% over the remaining life expectancy of the donors.

The current market interest rate used for the remainder interest at June 30, 2010 is 3.7%. Beneficial interests in charitable remainder trusts are classified within Level 3 of the fair value hierarchy.

During the fiscal year ended June 30, 2010, the Organization's beneficial interest in charitable remainder trusts amounted to \$196,323.

Charitable Gift Annuities

For charitable gift annuities, KCET's future payment liability is recorded in the statement of financial position as charitable gift annuities payable. Corresponding assets are held and recorded as investments, with any contribution in excess of the initial liability recognized as contribution revenue. The liability for each gift annuity is revalued each year under actuarial tables and market interest rates.

The current market interest rate used at June 30, 2010 is 2%. Charitable gift annuities payable are classified within Level 3 of the fair value hierarchy.

KCET has received \$720,496 under charitable gift annuities. In accordance with the terms of the agreements, KCET pays annual annuities of \$55,538 to the donors (and, in one case, a donor's spouse) during the remainder of their lives. At June 30, 2010, the annuities payable totaled \$363,230.

COMMUNITY TELEVISION OF SOUTHERN CALIFORNIA
(KCET)
(A NONPROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 4 – INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

The following table summarizes the Organization’s financial assets and liabilities by the fair value hierarchy levels in accordance with ASC 820 as of June 30, 2010.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
Equity securities	\$ 2,429,730	\$ -	\$ -	\$ 2,429,730
Fixed income securities	2,533,406	301,642	-	2,835,048
Money market securities	<u>1,103,928</u>	<u>-</u>	<u>-</u>	<u>1,103,928</u>
Total investments	<u>\$ 6,067,064</u>	<u>\$ 301,642</u>	<u>\$ -</u>	<u>\$ 6,368,706</u>
Financial assets				
Beneficial interest in charitable remainder trust	\$ -	\$ -	\$ 196,323	\$ 196,323
Total assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 196,323</u>	<u>\$ 196,323</u>
Financial liabilities				
Charitable gift annuities payable	\$ -	\$ -	\$ 363,230	\$ 363,230
Total liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 363,230</u>	<u>\$ 363,230</u>

Investments consisted of the following at June 30, 2010:

Investments restricted for investment in perpetuity	\$ 4,790,758
Charitable gift annuities required to be invested until the death of the income beneficiaries	<u>575,064</u>
Restricted investments	5,365,822
Unrestricted investments – current	<u>1,002,884</u>
Investments at fair value	6,368,706
Unrestricted investments – interest in land	<u>523,200</u>
Total investments	<u>\$ 6,891,906</u>

**COMMUNITY TELEVISION OF SOUTHERN CALIFORNIA
(KCET)**

(A NONPROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE 4 – INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

For the year ended June 30, 2010, the changes in investments, financial assets and liabilities classified as Level 3 are as follows:

	Beneficial Interest in Charitable Remainder Trust	Charitable Gift Annuities Payable
Balance, beginning of year	\$ 180,106	\$ 252,051
Contributions	-	119,583
Payments	-	(51,902)
Changes in value	16,217	43,498
Balance, end of year	\$ 196,323	\$ 363,230

NOTE 5 – PROPERTY, PLANT AND EQUIPMENT

Property and equipment at June 30, 2010 consisted of the following:

Land	\$ 3,330,277
Buildings and improvements	20,909,731
Antenna, transmitter and other broadcasting and studio equipment, including assets acquired under capital leases as of June 30, 2010 of \$1,314,265	33,072,529
Furniture, fixtures and automobiles, including assets acquired under capital leases as of June 30, 2010 of \$282,263	5,968,830
Construction in progress	458,907
	63,740,274
Less accumulated depreciation, including amounts applicable to assets acquired under capital leases as of June 30, 2010 of \$1,596,527	41,047,809
Total	\$22,692,465

Depreciation and amortization expense totaled \$3,098,095 for the year ended June 30, 2010.

COMMUNITY TELEVISION OF SOUTHERN CALIFORNIA

(KCET)

(A NONPROFIT ORGANIZATION)

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE 6 – LINE OF CREDIT

KCET has a \$2,500,000 revolving line-of-credit arrangement with City National Bank that expires on January 15, 2011, at which time all unpaid principal and interest amounts will be due unless the agreement is extended or renewed. Interest on this commitment is calculated by using a rate equal to either the greater of 3.5% per annum or the City National Bank Prime rate plus 5% per annum (8.25% at June 30, 2010).

This revolving line-of-credit arrangement contains certain restrictive financial covenants. At June 30, 2010, KCET was in breach of certain loan covenants with their borrowing facility. The lender issued a waiver on November 5, 2010 forgiving the breaches.

Interest is payable monthly on the outstanding balance. There were no amounts outstanding under this line of credit at June 30, 2010.

Interest expense related to the line of credit totaled \$40,702 for the year ended June 30, 2010.

NOTE 7 – CERTIFICATES OF PARTICIPATION

In February 1998, KCET entered into an agreement with the City of Los Angeles to finance the construction of KCET's Educational Telecommunications Center ("ETC") and the purchase of related equipment with proceeds received from the issuance of \$9,000,000 of fixed-rate certificates of participation. The debt is secured by a first trust deed on the ETC.

Interest at 5.75% per year is payable semiannually. Principal prepayments totaling \$6 million were made as of June 30, 2005. As a result, monthly principal payments of \$75,000 are payable from October 1, 2010 through January 1, 2013.

At June 30, 2010, principal payments on the certificates are to be made as follows:

Fiscal Year Ending <u>June 30,</u>	
2011	\$ 900,000
2012	900,000
2013	<u>525,000</u>
Total	<u>\$ 2,325,000</u>

COMMUNITY TELEVISION OF SOUTHERN CALIFORNIA

(KCET)

(A NONPROFIT ORGANIZATION)

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE 7 – CERTIFICATES OF PARTICIPATION (Continued)

Agreements relating to the certificates contain certain restrictive financial covenants. At June 30, 2010, KCET was in breach of certain loan covenants. The lender issued a waiver on November 5, 2010 forgiving the breaches.

NOTE 8 – DEFERRED PBS FEE PAYABLE

KCET entered into a deferred payment plan with Public Broadcasting Service (“PBS”) in June 2010. Under the terms of the agreement, which includes an acceleration clause should certain financing be obtained, KCET deferred \$4,000,000 in fees payable that will be paid over 36 months with the interest rate fixed at 5.25%. In the accompanying statement of financial position, the current outstanding principal balance of \$1.2 million is included in accounts payable, with the remaining portion due in “Deferred PBS fee payable.”

NOTE 9 – COMMITMENTS AND CONTINGENCIES

Lease Commitments

KCET leases certain facilities and equipment under long-term lease agreements. KCET has also entered into multiple sublease agreements with third parties. Future minimum payments and sublease income under noncancelable leases with initial terms of one year or more at June 30, 2010 are as follows:

Fiscal Year Ending <u>June 30,</u>	<u>Operating Leases</u>	<u>Sublease Income</u>
2011	\$ 293,955	\$ (283,413)
2012	276,010	-
2013	230,000	-
2014	207,600	-
2015	204,994	-
Thereafter	<u>88,164</u>	<u>-</u>
	1,300,723	(283,413)
Less current maturities	<u>293,955</u>	<u>(283,413)</u>
Total	<u>\$ 1,006,768</u>	<u>\$ -</u>

COMMUNITY TELEVISION OF SOUTHERN CALIFORNIA

(KCET)

(A NONPROFIT ORGANIZATION)

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE 9 – COMMITMENTS AND CONTINGENCIES (Continued)

Lease Commitments (Continued)

Rent expense for noncancelable operating leases was \$398,947 for the year ended June 30, 2010. Total sublease revenues for the year ended June 30, 2010 were \$558,707.

Legal Matters

In the ordinary course of business, KCET is subject to certain lawsuits and other potential legal actions. In the opinion of management, there are no such matters that are likely to have a material effect on the financial position of KCET.

Beneficial Interest in Charitable Remainder Unitrust

During the year ended June 30, 2005, KCET was informed that it is a beneficiary in a charitable remainder unitrust. As management has been unable to confirm the fair value of the trust assets with the trustee, they have not yet recorded its beneficial interest as of June 30, 2010.

Grants Receivable

At June 30, 2010 KCET had grant commitments due from third-party organizations totaling \$510,093 that are not included in the financial statements because KCET had not yet performed the services that would deem the grant funds to be receivable as of that date.

Grant funds are expected to be earned as follows in 2010:

<u>Source</u>	
Government Entities	\$ 8,598
Public Broadcasting Entities	<u>501,495</u>
Total	<u>\$ 510,093</u>

NOTE 10 – NET ASSETS

Unrestricted Net Assets

Unrestricted net assets consisted of the following at June 30, 2010:

Fixed assets, net of certificates of participation	\$ 20,367,465
Other	<u>(10,540,117)</u>
Total	<u>\$ 9,827,348</u>

COMMUNITY TELEVISION OF SOUTHERN CALIFORNIA

(KCET)

(A NONPROFIT ORGANIZATION)

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE 10 – NET ASSETS (Continued)

Temporarily Restricted Net Assets

Temporarily restricted net assets were available for the following purposes at June 30, 2010:

Productions	\$ 11,967,652
Program underwriting	1,606,071
Beneficial interest in charitable remainder trust	196,323
Charitable gift annuities	211,834
Endowment investment return	528,974
General operations	<u>19,255</u>
Total	<u>\$ 14,530,109</u>

Permanently Restricted Net Assets

Permanently restricted net assets consist solely of donor-restricted endowment funds. The Organization does not currently have any funds functioning as endowment through designation by the Board. The earnings of KCET's endowment funds support the mission of KCET.

Net assets of the Organization by net asset class are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 528,974	\$ 4,261,784	\$ 4,790,758
Total endowment funds	<u>\$ -</u>	<u>\$ 528,974</u>	<u>\$ 4,261,784</u>	<u>\$ 4,790,758</u>

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 KCET to retain as a fund of perpetual duration. In accordance with the provisions of FASB ASC Topic 958, deficiencies of this nature are reported in unrestricted net assets, but there were no such deficiencies as of June 30, 2010.

The disclosures regarding the reconciliation of the beginning and ending balances of the Organization's endowment funds by net asset class for the fiscal year ended June 30, 2010 are as follows:

COMMUNITY TELEVISION OF SOUTHERN CALIFORNIA

(KCET)

(A NONPROFIT ORGANIZATION)

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE 10 – NET ASSETS (Continued)

Permanently Restricted Net Assets (Continued)

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of the year	\$ 125,375	\$ 4,216,207	\$ 4,341,582
Investment return			
Investment income	139,819	-	139,819
Net appreciation (realized and unrealized)	325,371	-	325,371
Total investment return	465,190	-	465,190
Contributions	-	445,577	445,577
Release/appropriation of endowment funds	(61,591)	(400,000)	(461,591)
Endowment net assets, end of year	\$ 528,974	\$ 4,261,784	\$ 4,790,758

During the year ended June 30, 2010, certain donors released the restriction on permanently restricted endowment funds of \$400,000.

Spending Policy and How the Investment Objectives Relate to Spending Policy

KCET's endowment spending policy is based on the trailing market value of its endowment. The total annual distribution to be made from the fund each year shall not exceed 5% of the total fair market value of the fund, less all liabilities and accrued expenses of the fund. The spending rate will be applied to a 12-quarter rolling average fair market value of the fund. In any given year the Administrator, after consultation with KCET Finance Committee, may decide not to make a distribution from the fund.

The spending policy is reviewed by the Finance Committee of the Board of Trustees periodically. This is consistent with KCET's objective to maintain the purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts. KCET considers the following factors in making a determination to appropriate funds for distribution:

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

COMMUNITY TELEVISION OF SOUTHERN CALIFORNIA

(KCET)

(A NONPROFIT ORGANIZATION)

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE 10 – NET ASSETS (Continued)

Return Objectives and Risk Parameters

As delegated authority by the full Board, the Finance Committee of the Board has adopted investment policies that govern the management and oversight of the endowment funds and other investments (endowment and reserves). The policies set forth the objectives for the endowment and reserves of KCET, the strategies to achieve the objectives, procedures for monitoring and control, and the delineation of responsibilities for the Finance Committee, consultant, investment managers, staff and custodian in relation to the portfolio. The policies are intended to allow for sufficient flexibility in the management oversight process to capture investment opportunities as they may occur, while at the same time setting forth reasonable risk control parameters that a prudent person would take in the execution of the investment program. Investment assets are managed on a total return basis, with emphasis on both preservation of capital and acceptance of investment risk necessary to achieve favorable performance on a risk-adjusted basis.

NOTE 11 – RETIREMENT PLAN

Eligible employees of KCET participate in a defined contribution plan through the Teachers' Insurance and Annuity Association and College Retirement Equity Fund retirement programs. Contributions to the plan are made by KCET and are used to purchase individual retirement annuities. Employees have the option of contributing additional amounts to the plan. There were no KCET contributions for the year ended June 30, 2010.

NOTE 12 – SUBSEQUENT EVENTS

On October 8, 2010 KCET announced that, with the unanimous approval of its Board of Directors, as of January 1, 2011 it will become the largest independent public television station in the United States. As an independent television station, KCET will no longer broadcast programs supplied by the Public Broadcasting Service ("PBS") but it will remain a non-profit, viewer supported public media organization, operating under a non-commercial, educational television broadcast license. This change will allow KCET much more flexibility to provide national, international and local programming that is relevant to the Southern California communities it serves and will also aid KCET's continued financial stability.

Management evaluated all other activity through November 16, 2010 (the date the financial statements were available to be issued) and noted no further events requiring disclosure.