WNET.ORG

AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
(Together with Independent Auditors' Report)

YEARS ENDED JUNE 30, 2008 AND 2007

Marks Paneth & Shron LLP
Certified Public Accountants and Consultants

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

CONSOLIDATED FINANCIAL STATEMENTS
(Together with Independent Auditors' Report)

YEARS ENDED JUNE 30, 2008 AND 2007

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
WNET.ORG

We have audited the accompanying consolidated statement of financial position of WNET.ORG (a New York education corporation chartered by the Board of Regents) and subsidiaries (collectively, the "Company") as of June 30, 2008, and the related consolidated statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The consolidated financial statements of the Educational Broadcasting Corporation (a subsidiary of WNET.ORG) and subsidiaries as of June 30, 2007, were audited by other auditors whose report dated December 11, 2007, expressed an unqualified opinion on those statements and included an explanatory paragraph that described the Company's estimate of the fair values of certain investments in the absence of readily determinable fair values.

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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of WNET.ORG and subsidiaries as of June 30, 2008 and the changes in their net assets and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes 2 and 4, the consolidated financial statements include investments valued at $44.5 million (19.5% of net assets) as of June 30, 2008 whose fair value has been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or the general partners.

Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplemental schedule of functional expenses on page 15 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. This supplemental schedule is the responsibility of the Company's management. Such supplemental schedule has been subjected to the auditing procedures applied in our audit of the basic 2008 consolidated financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic consolidated financial statements taken as a whole. The report of the auditors of the 2007 basic consolidated financial statements stated that the 2007 information on page 16 of the prior presentation was subjected to the auditing procedures applied in the audit of the 2007 basic consolidated financial statements, and that the schedule was fairly stated in all material respects when considered in relation to the basic 2007 consolidated statements taken as a whole.

Marks Paneth & Shron LLP

New York, NY
March 12, 2009

WNET.ORG
(A New York Education Corporation Chartered by the Board of Regents)
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2008 AND 2007

	2008	2007
ASSETS		
Cash and cash equivalents (Note 18)	$ 7,864,000	$ 6,123,000
Investments (Notes 2C, 4, 5, 7, 12 and 19)	111,881,000	113,149,000
Accounts receivable (net of allowance for doubtful accounts of $714,000 and $182,000 in 2008 and 2007, respectively)	5,804,000	4,601,000
Grants and gifts receivable, net (Note 3)	85,841,000	72,472,000
Costs incurred for programs not yet telecast	23,927,000	21,620,000
Prepaid expenses and other assets (Note 15)	3,451,000	4,705,000
Property and equipment, net (Notes 6 and 7)	30,264,000	31,050,000
Excess of purchase price over net tangible assets acquired (Note 2G)	5,854,000	5,854,000
Broadcast license (Note 2G)	7,700,000	7,700,000
TOTAL ASSETS	$ 282,586,000	$ 267,274,000
LIABILITIES		
Accounts payable and accrued expenses (Notes 2H, 2K and 12C)	$ 29,701,000	$ 26,068,000
Deferred revenue (Note 13)	11,893,000	14,186,000
Line of credit (Note 7)	13,000,000	-
Notes payable (Note 7)	-	10,250,000
TOTAL LIABILITIES	54,594,000	50,504,000
COMMITMENTS AND CONTINGENCIES (Note 12)		
NET ASSETS		
Unrestricted:		
Operations	41,698,000	41,632,000
Nonspendable (Note 4)	30,817,000	34,688,000
Board designated	1,739,000	1,739,000
Total unrestricted	74,254,000	78,059,000
Temporarily restricted (Note 8)	92,862,000	80,347,000
Permanently restricted (Note 9)	60,876,000	58,364,000
TOTAL NET ASSETS	227,992,000	216,770,000
TOTAL LIABILITIES AND NET ASSETS	$ 282,586,000	$ 267,274,000

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

WNET.ORG
(A New York Education Corporation Chartered by the Board of Regents)
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
CHANGES IN UNRESTRICTED NET ASSETS:		
REVENUE:		
Contributions	$ 42,588,000	$ 42,841,000
New York State grant	8,749,000	7,820,000
Nonbroadcast sales	7,477,000	9,046,000
Investment income (Note 4)	7,932,000	5,033,000
Other income (Note 13)	9,573,000	8,128,000
Total revenue	76,319,000	72,868,000
Net assets released from restrictions:		
Underwriting for designated projects (Note 10)	75,084,000	81,334,000
CPB Program Grants	2,912,000	3,379,000
CPB Community Service Grant	11,975,000	11,283,000
PBS Program Service Grants	16,771,000	17,388,000
Total net assets released from restrictions	106,742,000	113,384,000
TOTAL UNRESTRICTED REVENUE AND OTHER SUPPORT	183,061,000	186,252,000
EXPENSES:		
Program service (Note 10):		
National program service	83,296,000	93,878,000
Broadcast station	43,815,000	40,332,000
Education	11,597,000	10,605,000
Total program service	138,708,000	144,815,000
Fundraising:		
Membership and development	19,146,000	19,169,000
Marketing	6,522,000	6,222,000
Total fundraising	25,668,000	25,391,000
Management and administration services	18,619,000	15,833,000
TOTAL EXPENSES	182,995,000	186,039,000
INCREASE IN UNRESTRICTED SPENDABLE NET ASSETS	66,000	213,000
INVESTMENT INCOME GENERATED FROM INVESTMENT FUND CONTRIBUTIONS (Note 4)	4,410,000	17,744,000
TRANSFERRED INVESTMENT INCOME (Note 4)	(7,840,000)	(4,653,000)
INVESTMENT FUND MANAGEMENT FEES	(441,000)	(381,000)
CHANGE IN UNRESTRICTED NET ASSETS	(3,805,000)	12,923,000
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:		
Underwriting for designated projects (Note 10)	119,257,000	107,185,000
Net assets released from restrictions	(106,742,000)	(113,384,000)
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	12,515,000	(6,199,000)
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS:		
Endowment contributions	2,512,000	3,237,000
CHANGE IN PERMANENTLY RESTRICTED NET ASSETS	2,512,000	3,237,000
CHANGE IN TOTAL NET ASSETS	11,222,000	9,961,000
Net Assets - beginning of year	216,770,000	206,809,000
NET ASSETS - END OF YEAR	$ 227,992,000	$ 216,770,000

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

WNET.ORG
(A New York Education Corporation Chartered by the Board of Regents)
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 11,222,000	$ 9,961,000
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	4,986,000	4,968,000
Loss on disposal of fixed assets, net	12,000	-
Loss on sale of stock contributions	51,000	10,000
Endowment contributions	(2,512,000)	(3,237,000)
Net realized gains on investments	(8,404,000)	(2,246,000)
Net unrealized loss (gain) on investments	7,079,000	(12,980,000)
Subtotal	12,434,000	(3,524,000)
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable	(1,203,000)	(993,000)
Grants and gifts receivable	(13,369,000)	(4,385,000)
Costs incurred for programs not yet telecast	(2,307,000)	1,595,000
Prepaid expenses and other assets	1,254,000	(126,000)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	4,126,000	26,000
Deferred revenue	(2,293,000)	13,800,000
Net Cash (Used) Provided by Operating Activities	(1,358,000)	6,393,000
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment purchases and reinvested income	(22,567,000)	(6,994,000)
Proceeds from sales of investments	25,160,000	4,214,000
Loss on sale of stock contributions	(51,000)	(10,000)
Purchase of property and equipment	(4,217,000)	(4,845,000)
Proceeds from sale of property and equipment	5,000	-
Net Cash Used by Investing Activities	(1,670,000)	(7,635,000)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Endowment contributions	2,512,000	3,237,000
Increase (payment) on line of credit	13,000,000	(2,000,000)
Payment of notes payable	(10,250,000)	-
Payment of annuity obligations	(493,000)	(379,000)
Net Cash Provided by Financing Activities	4,769,000	858,000
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,741,000	(384,000)
Cash and cash equivalents - beginning of year	6,123,000	6,507,000
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 7,864,000	$ 6,123,000
Supplemental Disclosure of Cash Flow Information:		
Interest paid during the year	$ 335,000	$ 380,000

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

WNET.ORG
(A New York Education Corporation Chartered by the Board of Regents)
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 1—ORGANIZATION AND NATURE OF ACTIVITIES

WNET.ORG is a New York education corporation chartered by the Board of Regents on April 15, 2008. Its mission is to acquire, distribute, and through its controlled subsidiaries, produce public educational television programs. WNET.ORG is the sole member of Educational Broadcasting Corporation ("EBC") and Creative News Group, LLC. On July 11, 2008, WNET.ORG submitted IRS Form 1023, Application for Recognition of Exemption, to the Internal Revenue Service, but has yet to receive a final determination.

Formed in 1962, EBC is a New York education corporation chartered by the Board of Regents. EBC produces and broadcasts public educational television programs. Its mission is to be a leading provider of educational, informational and cultural products and services, using all media, which reflect and respect a diverse and complex world; serve the underserved; offer cultural enrichment; facilitate responsible citizenship; adhere to the highest standards of artistic and editorial integrity and create opportunities for experimentation. EBC produces programs individually and in collaboration with other entities and broadcast such programs on Channel 13 ("WNET"), Channel 21 ("WLIW") and on other public television stations throughout the United States. Public Broadcasting Communications Inc. ("PBC") is a controlled subsidiary of EBC.

On January 31, 2003, the operating activities of the Long Island Educational TV Council, Inc. (the "Council") merged with EBC. Principal operating activities of the former Council are now conducted under the name WLIW, L.L.C.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. ***Basis of Presentation*** – The accompanying consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America. The consolidated financial statements of the Company include the accounts of WNET.ORG and its subsidiaries, EBC and PBC. The June 30, 2007 financial statements include the accounts of EBC and its subsidiaries. All intercompany balances have been eliminated.

B. ***Cash and Cash Equivalents*** – The Company considers all highly liquid financial instruments with a maturity of three months or less when purchased to be cash equivalents, except cash and money market funds held in the investment portfolio.

C. ***Investments*** – Investments are stated at fair value. Fair value for investments traded publicly is based on published market prices. Fair value of investments not traded publicly have been estimated by management based on information provided by the fund managers or the general partners. Investment transactions are accounted for on the date the investments are purchased or sold (trade date). The majority of realized gains are in the form of capital gain distributions and sales of securities, which are recorded as earned. Interest and dividend income are recorded when earned.

   As of June 30, 2008 and 2007, the consolidated financial statements include investments valued at $44,542,000 and $41,108,000, respectively, whose value has been estimated by management based on information provided by the fund managers or general partners of the investment companies.

D. ***Cost Incurred for Programs Not Yet Telecast*** – Costs incurred for programs not yet telecast relate to programs that will be aired subsequent to the Company's fiscal year-end. As the programs are telecast, these costs are included in operating expenses and related restricted net assets are released.

E. ***Property and Equipment*** – Property and equipment is recorded at cost less accumulated depreciation. The amounts do not purport to represent replacement or realizable values. The Company capitalizes property and equipment with a cost of $750 or more and a useful life of greater than three years. Depreciation is calculated using the straight-line method over the useful lives of the assets, ranging from 3 to 31 years. Expenditures for leasehold improvements are capitalized and amortized over the shorter of the life of the asset or the lease term.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. ***Impairment of Long-Lived Assets*** – In accordance with Statement of Financial Accounting Standards ("SFAS") No. 144, *Accounting for Impairment or Disposal of Long-Lived Assets*, the Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. No impairment loss has been recognized by the Company for each of the years ended June 30, 2008 and 2007.

G. ***Excess of Purchase Price Over Net Tangible Assets Acquired and Broadcast License*** – The excess of the purchase price over the net tangible assets acquired in 1962 and the broadcast license are not being amortized. In the opinion of management, the station and the related broadcast license are deemed to have an indefinite life, and no diminution in value has occurred. There were no impairment charges recorded during the years ended June 30, 2008 and June 2007.

H. ***Life Annuities*** – The Company has entered into Life Annuity Trusts whereby donors receive payments for the remainder of their lives with any remainder at death reverting to the Company, unless specifically restricted by the donor. The remainder of all such agreements have been permanently restricted by the donors. The liability is determined based on actuarial assumptions and, as of June 30, 2008 and 2007, a liability of $3,135,000 and $2,373,000, respectively, was included in accounts payable and accrued expenses. The amount of contributions recorded by the Company is the fair value of the trust assets received less the present value of the estimated annuity payments. As of June 30, 2008 and 2007, the trust assets were $5,840,000 and $4,249,000, respectively.

I. ***Contributions and Grants*** – Contributions and grants are recognized as revenue when they are received or unconditionally pledged.

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

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

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

J. ***Allowance for Doubtful Accounts*** – The Company estimates the allowance for doubtful accounts based on management's evaluation of the creditworthiness of its donors and grantors, the aged basis of its receivables, as well as current economic conditions and historical information.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. ***Deferred Rent*** – The Company leases real property under operating leases expiring at various dates in the future. Since the rent payments increase over time, the Company records an adjustment to rent expense each year to reflect its straight-lining policy. The annual adjustment recorded for the years ended June 30, 2008 and 2007 amounted to a $220,000 increase and a $177,000 decrease, respectively. Straight-lining of rent gives rise to a timing difference that is reflected as accounts payable and accrued expenses in the accompanying consolidated statements of financial position. As of June 30, 2008 and 2007, such deferrals amounted to $5,798,000 and $5,578,000, respectively.

L. ***Nonbroadcast Sales*** – Nonbroadcast sales are generated primarily from home video sales and royalties.

M. ***Other Income*** – Other income is generated from facility rental fees and reimbursement for expenses. Additionally, during the years ended June 30, 2008 and 2007, the Company recognized revenue from the licensing of its unused spectrum (see Note 13).

N. ***Income Taxes*** – EBC and PBC are exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provisions for income tax has been recorded in the accompanying consolidated financial statements. WNET.ORG has applied for federal income tax exemption under Section 501(c)(3) of the Internal Revenue Code. WNET.ORG has not yet received a determination from the IRS.

O. ***Use of Estimates*** – The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. In the Company's opinion, actual results are not expected to vary materially from the estimates and assumptions used in preparing the financial statements, except as it relates to certain investments as described in Note 4.

P. ***Reclassification*** – Certain line items in the June 30, 2007 financial statements have been reclassified to conform to the June 30, 2008 presentation.

NOTE 3—GRANTS AND GIFTS RECEIVABLE

As of June 30, 2008 and 2007, the Company has unconditional grants and gifts receivable as follows:

	2008	2007
Amount due in less than one year	$ 49,368,000	$ 60,340,000
Amount due from one to five years	37,963,000	12,469,000
Amount due after five years	2,916,000	2,808,000
	90,247,000	75,617,000
Less: Unamortized discount to present value	(4,106,000)	(2,845,000)
Allowance for doubtful accounts	(300,000)	(300,000)
	$ 85,841,000	$ 72,472,000

The pledges to be received after one year are discounted to fair value at interest rates ranging from 3.00% to 6.00%. The amortization of the discount is reflected as additional contribution revenue in the accompanying consolidated financial statements.

NOTE 4—INVESTMENTS

The major classes of investments as of June 30, 2008 and 2007 are as follows:

	2008	2007
Cash and money market funds	$ 17,482,000	$ -
U.S. Equity Funds	2,890,000	22,518,000
International Equity Funds	24,549,000	29,352,000
Fixed Income Funds	20,751,000	19,087,000
TIPS	8,628,000	8,040,000
Alternative Investments	24,842,000	23,453,000
Natural Resources Trust	12,739,000	10,699,000
	$ 111,881,000	$ 113,149,000

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

Investment income earned during the years ended June 30, 2008 and 2007 follows:

	2008	2007
Dividends/interest - operations	$ 143,000	$ 390,000
Capital loss - operations	$ (51,000)	$ (10,000)
Income from investment fund:		
Net realized gains	$ 8,404,000	$ 2,246,000
Net unrealized (loss) gain	(7,079,000)	12,980,000
	1,325,000	15,226,000
Dividends/interest	3,085,000	2,518,000
Total investment fund income	$ 4,410,000	$ 17,744,000

Transfer from the investment fund of current and prior period accumulated income were comprised of the following:

	2008	2007
Endowment – Board authorized	$ 7,840,000	$ 4,653,000

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

Approximately $17,587,000 of investments in mutual funds were pledged as collateral against a $13,000,000 bank line of credit and for that bank's guarantee of one month of the Company's rent obligation (see Notes 7 and 12).

NOTE 5—INVESTMENT FUND

From the inception of the investment fund through June 30, 2008 and 2007, $185,500,000 and $177,418,000, including investment income, was received by the Company for the investment fund, respectively and $73,619,000 and $64,269,000, respectively was expended for operations.

The following summarizes the cumulative activity of the investment fund for the years ended June 30, 2008 and 2007:

	2008	2007
Investment fund revenue including investment income:		
Permanently restricted grants and gifts and cumulative income	$ 111,198,000	$ 104,191,000
NEA cash reserve fund	1,932,000	2,576,000
Donor-designated programming and facilities projects	21,374,000	21,274,000
Operating fund	50,996,000	49,377,000
Total investment fund income	185,500,000	177,418,000
Deductions:		
Gifts received and expended for current operations during the same year	9,350,000	4,199,000
Previously deferred gifts expended for prior operations	60,328,000	56,129,000
Expended for operations	3,941,000	3,941,000
Total deductions	73,619,000	64,269,000
	$ 111,881,000	$ 113,149,000
Net investment fund balances including investment income:		
Endowment fund	$ 62,909,000	$ 65,137,000
NEA cash reserve fund	1,932,000	2,576,000
Operating fund	47,040,000	45,436,000
	$ 111,881,000	$ 113,149,000

NOTE 6—PROPERTY AND EQUIPMENT

As of June 30, 2008 and 2007, property and equipment consists of the following:

	2008	2007
Land, building and leasehold improvements	$ 21,668,000	$ 20,044,000
Television and other equipment	67,331,000	65,657,000
Construction/work in progress (see below)	1,546,000	1,379,000
Total cost	90,545,000	87,080,000
Less: Accumulated depreciation and amortization	(60,281,000)	(56,030,000)
Net book value	$ 30,264,000	$ 31,050,000

Depreciation and amortization for the years ended June 30, 2008 and 2007 amounted to $4,986,000 and $4,968,000, respectively. During the year ended June 30, 2008, certain fully depreciated equipment with a total cost of approximately $736,000 was written off. Construction/work in progress primarily consists of enhancements to the primary transmitter and a build-out of WLIW facilities. It is expected the estimated costs to complete these projects will approximate $3,834,000.

NOTE 7—NOTES PAYABLE AND LINE OF CREDIT

As of June 30, 2008 and 2007, notes payable consist of the following:

	2008	2007
Notes payable to the Trust for Cultural Resources of The City of New York (the "Trust")	$ -	$ 10,250,000

In January 1999, the Company issued notes payable to the Trust, in the amount of $10,250,000, being the liaison of the tax exempt bond. The notes are secured by television and other equipment owned by the Company and were scheduled to mature on January 1, 2004, and with the approval of the Trust, the notes were extended to mature not later than January 1, 2008. The notes were retired and repaid, with interest, on December 31, 2007.

Interest on the notes through December 31, 2003, was at a rate of 4.6% payable semiannually in January and July. The rate of interest on the notes from January 1, 2004 to December 31, 2007, was 2.68%. Interest expense for the notes for the years ended June 30, 2008 and 2007 was approximately $137,000 and $275,000, respectively.

In addition, the Company has a $13,000,000 line of credit with a bank, which bears interest at the London Inter-Bank Offering Rate plus 1.0 percent (3.5% as of June 30, 2008). There was $13,000,000 outstanding against the line of credit as of June 30, 2008. Approximately $17,587,000 of investments in mutual funds were pledged as collateral against the $13,000,000 line of credit. Under the terms of the line of credit, the Company is required to meet certain financial covenants, and as of June 30, 2008, the Company was in compliance with these covenants. The line expires on December 31, 2009. In November 2008, the Company increased its line of credit with this bank to $25,000,000. The line bears interest at the lower of LIBOR +1% or prime +1%, at the Company's discretion. As of March 12, 2009, the outstanding borrowings amounted to $15,000,000.

NOTE 8—TEMPORARILY RESTRICTED NET ASSETS

As of June 30, 2008 and 2007, temporarily restricted net assets are available for the following purposes:

	2008	2007
Underwriting for designated projects - net	$ 55,496,000	$ 57,702,000
CPB Program Grants	578,000	1,474,000
CPB Community Service Grant	4,383,000	7,953,000
PBS Program Services Grants	32,405,000	13,218,000
	$ 92,862,000	$ 80,347,000

NOTE 9—PERMANENTLY RESTRICTED NET ASSETS

As of June 30, 2008 and 2007, permanently restricted net assets consist of the following:

	2008	2007
General Programs	$ 32,842,000	$ 30,498,000
Art and Humanities Programs	10,347,000	10,207,000
Social Programs	10,963,000	10,963,000
Education Resources Fund	231,000	222,000
Children's Programs	2,804,000	2,804,000
Science and Nature Programs	1,902,000	1,883,000
News and Public Affairs Programs	1,787,000	1,787,000
	$ 60,876,000	$ 58,364,000

NOTE 10—IN-KIND INCOME

During the years ended June 30, 2008 and 2007, the Company received approximately $15,142,000 and $21,039,000, respectively, of in-kind income. The in-kind income consists primarily of production revenue and donated advertising as follows:

	2008	2007
Production revenue	$ 14,995,000	$ 20,647,000
Donated advertising	147,000	392,000
	$ 15,142,000	$ 21,039,000

These amounts have been calculated based upon the fair value of the services performed as reported to the Company by the donors and are included in the Company's consolidated financial statements as follows:

	2008	2007
Revenues-underwriting for designated projects	$ 15,142,000	$ 21,039,000
Expenses:		
National Program Service	$ 13,061,000	$ 19,496,000
Broadcast station	854,000	196,000
Education	1,227,000	1,347,000
	$ 15,142,000	$ 21,039,000

NOTE 11—RETIREMENT PLAN

The Company has a defined contribution retirement plan under IRC Section 403(b) for primarily all full-time nonunion employees who have completed two years of service. Under the plan, the Company purchases annuity contracts for each eligible employee who elects to participate in the plan. The Company's minimum contribution rate under the plan is 3% of eligible compensation. In addition, employee contributions will be matched by the Company up to an additional 5%. Expenses under the plan for the years ended June 30, 2008 and 2007, amounted to $2,564,000 and $2,493,000, respectively. The Company's policy is to fund retirement plan costs currently.

In addition, there are several defined contribution plans covering unionized employees. EBC's contribution to these plans is specified by the union collective bargaining agreements and approximated $788,000 and $743,000 for the years ended June 30, 2008 and 2007, respectively.

NOTE 12—COMMITMENTS AND CONTINGENCIES

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

   In November 2008, the Company entered into a 15-year and 5-month operating lease at Lincoln Center for the Performing Arts, Inc. primarily for the broadcast site of the program "WORLDFOCUS".

   The rent expense incurred under these agreements aggregated to $5,509,000 and $5,275,000 for the years ended June 30, 2008 and 2007, respectively.

NOTE 12—COMMITMENTS AND CONTINGENCIES (Continued)

For the years ended after June 30, 2008, the future minimum rentals under the various real estate lease agreements follows:

2009	$ 6,362,000
2010	7,231,000
2011	7,239,000
2012	7,271,000
2013	7,315,000
Thereafter	51,116,000
	$ 86,534,000

In addition, these agreements include escalation provisions for real estate taxes and tenant improvements based on changes in the assessed valuation of the property. Additional rent expense incurred under these escalation clauses for the years ended June 30, 2008 and 2007, amounted to $1,614,000 and $1,097,000, respectively.

A bank has guaranteed one month of the Company's rent obligation. The Company has pledged mutual funds with a fair value of $17,587,000 as of June 30, 2008, as security for this guarantee and a $13,000,000 bank line of credit (see Notes 4 and 7).

B. The Company is party to various pending legal proceedings arising in the ordinary course of business. The Company's management and legal counsel have reviewed the probable outcome of these proceedings and the costs and expenses reasonably expected to be incurred. While the outcome of the pending proceedings cannot be predicted with certainty, based on its review, management believes that the liabilities that may result are not likely to have a material effect on the Company's liquidity, financial condition or change in net assets.

C. The Company receives funding under grants from a variety of organizations. The grant agreements generally contain provisions under which the grantor may audit the books and records of the Company. During the year ended June 30, 2007, a grantor commenced an audit with respect to one grant. The result from this audit will not have a material adverse effect on the Company's liquidity, financial condition or change in net assets for the year ended June 30, 2008 or any prior periods reported. As of June 30, 2008, a liability was recorded amounting to $2,314,000. Such amount is included in accounts payable and accrued expenses in the accompanying consolidated financial statements.

D. The Company's subsidiary, EBC, receives funding under grants from a variety of public and private sources. The grant agreements often contain provisions under which the grantor may audit the books and records of EBC. During the year ended June 30, 2008, EBC received a subpoena from the Office of the Inspector General of the National Science Foundation ("NSF"), notifying EBC that it had commenced a review of, and requesting information regarding, an NSF grant for $1,530,000. Subsequently, that review was expanded to include an additional $9,000,000 in funds from five other NSF grants.

In a December 12, 2008 letter from the Inspectors General of the NSF, the National Endowment for the Arts ("NEA") and the National Endowment for the Humanities ("NEH") (collectively, the "IGs"), EBC was advised that the NSF IG had identified several "significant concerns" regarding EBC's use of NSF award funds. As a result, the IGs advised EBC of their belief that EBC's actions violated a federal civil statute and that the IGs would be required to refer the matter to the United States Department of Justice for review. Subsequently, the NSF IG informed EBC that no such referral would be made, pending the outcome of a yet-to-be-scheduled meeting among EBC and the IGs. The IGs also requested information from EBC concerning two NEA grants and two NEH grants totaling approximately $1,200,000 and $1,120,000, respectively.

NOTE 12—COMMITMENTS AND CONTINGENCIES (Continued)

EBC is fully cooperating with the IGs. As of March 12, 2009, it is premature for management to estimate the probable outcome of this review. However, it is at least reasonably possible that some costs may be disallowed.

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 $11,728,000 and $14,017,000 as of June 30, 2008 and 2007, respectively, related to the unamortized portion of this income. For the years ended June 30, 2008 and 2007, approximately $2,289,000 and $483,000, respectively, was recognized in other income. The amount of amortization for the year ended June 30, 2008 is based on a reassessment of the deferral made by an outside consultant.

NOTE 14—FAIR VALUE OF FINANCIAL INSTRUMENTS

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

NOTE 15—PROGRAM RESOURCE GROUP

The president and general manager of WLIW is the founder and Chairman of the Board of the Program Resource Group ("PRG"). PRG is a nonprofit corporation owned by 3 charter member public television stations, which provides programming services to more than 20 stations, including its members, for a fee. PRG operates from office space rented from the Company. In addition, the Company performed administrative and accounting services for PRG for a fee of $24,000 for each of the years ended June 30, 2008 and 2007. As of June 30, 2008 and 2007, the receivable from PRG for programming services, rent, administrative and accounting services and reimbursable expenses included in other assets, totaled approximately $865,000 and $650,000, respectively, and the reserve was approximately $813,000 and $580,000 as of June 30, 2008 and 2007, respectively. The majority of this receivable and reserve occurred before the merger with WLIW, L.L.C.

NOTE 16—INVESTMENT IN V-ME, INC.

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

In addition, the Company provided certain production services and the use of facilities to V-Me, Inc. As of June 30, 2008, the balance due from V-Me, Inc. was approximately $898,000, net of an allowance for doubtful accounts of $500,000.

NOTE 17—ASSET PURCHASE AGREEMENT

On August 3, 2005, the Company entered into an Asset Purchase Agreement with Barry Telecommunications, Incorporated, a not-for-profit corporation wholly owned by Barry University, for the purchase of WXEL-TV analog and digital, WXEL-FM analog and digital, and all associated assets and liabilities. WXEL serves the Palm Beach, Florida community. In accordance with that agreement, $500,000 had been placed in an escrow account with a bank. As a result of extended and inconclusive discussions with the FCC in seeking its approval for this asset transfer, the Company and Barry University mutually agreed that it was in each institution's best interest to withdraw the application. The letter requesting dismissal was dated on May 23, 2008 and filed with the Commission on May 27, 2008. The application was dismissed on June 4, 2008. The $500,000 held in escrow was returned to the Company, with interest, on May 27, 2008.

NOTE 18—CONCENTRATIONS

The Company maintains cash and cash equivalents in major financial institutions. Financial instruments that potentially subject the Company to a concentration of credit risk include cash accounts with a major bank that exceeded the FDIC insurance limits ($100,000) by approximately $10,669,000 and $8,636,000 as of June 30, 2008 and 2007, respectively. Such amounts include outstanding checks. Subsequent to June 30, 2008, FDIC insurance coverage was increased to $250,000, expiring in December 2009.

NOTE 19—SUBSEQUENT EVENTS (UNAUDITED)

As of February 28, 2009, the fair value of certain investments of the Company held as of June 30, 2008 subsequently has declined by approximately 22%.

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AND SUBSIDIARIES
CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2008

	Program Services	Supporting Services: Fundraising	Supporting Services: Management and Administrative	Total 2008
Salaries and wages	$ 33,839,000	$ 7,931,000	$ 8,691,000	$ 50,461,000
Benefits and payroll taxes	7,869,000	1,745,000	2,193,000	11,807,000
Professional fundraising	-	1,341,000	-	1,341,000
Accounting and legal fees	880,000	166,000	1,292,000	2,338,000
Supplies and premiums	376,000	3,080,000	149,000	3,605,000
Telephone and transmission	1,387,000	871,000	490,000	2,748,000
Postage, delivery and fulfillment	1,921,000	1,948,000	80,000	3,949,000
Rent	5,032,000	812,000	1,401,000	7,245,000
Utilities	788,000	108,000	501,000	1,397,000
Insurance	463,000	104,000	182,000	749,000
Security and fire safety	304,000	66,000	203,000	573,000
General building maintenance	413,000	83,000	187,000	683,000
Equipment rentals, purchase and maintenance	1,221,000	65,000	515,000	1,801,000
Printing and publications	1,505,000	1,429,000	123,000	3,057,000
Travel and business expense	3,465,000	767,000	433,000	4,665,000
Interest expense	208,000	47,000	86,000	341,000
Depreciation and amortization	4,153,000	294,000	539,000	4,986,000
Advertising and promotion	2,180,000	49,000	3,000	2,232,000
Dues and PBS assessments	11,985,000	7,000	27,000	12,019,000
Program production and acquisition costs	60,033,000	1,924,000	341,000	62,298,000
Miscellaneous expenses	686,000	2,831,000	1,183,000	4,700,000
TOTAL EXPENSES	$ 138,708,000	$ 25,668,000	$ 18,619,000	$ 182,995,000

See independent auditors' report.

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CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2007

		Supporting Services		
	Program Services	Fundraising	Management and Administrative	Total 2007
Salaries and wages	$ 33,329,000	$ 7,376,000	$ 8,289,000	$ 48,994,000
Benefits and payroll taxes	7,839,000	1,630,000	2,238,000	11,707,000
Professional fundraising	-	1,593,000	-	1,593,000
Accounting and legal fees	1,032,000	146,000	426,000	1,604,000
Supplies and premiums	374,000	2,704,000	140,000	3,218,000
Telephone and transmission	1,538,000	831,000	483,000	2,852,000
Postage, delivery and fulfillment	1,867,000	2,392,000	51,000	4,310,000
Rent	4,769,000	738,000	1,177,000	6,684,000
Utilities	834,000	117,000	463,000	1,414,000
Insurance	518,000	110,000	184,000	812,000
Security and fire safety	300,000	64,000	195,000	559,000
General building maintenance	405,000	83,000	209,000	697,000
Equipment rentals, purchase and maintenance	1,101,000	79,000	520,000	1,700,000
Printing and publications	1,854,000	1,347,000	94,000	3,295,000
Travel and business expense	3,482,000	1,031,000	336,000	4,849,000
Interest expense	200,000	44,000	73,000	317,000
Depreciation and amortization	4,168,000	292,000	508,000	4,968,000
Advertising and promotion	2,837,000	23,000	108,000	2,968,000
Dues and PBS assessments	11,781,000	6,000	16,000	11,803,000
Program production and acquisition costs	65,665,000	2,127,000	187,000	67,979,000
Miscellaneous expenses	922,000	2,658,000	136,000	3,716,000
TOTAL EXPENSES	$ 144,815,000	$ 25,391,000	$ 15,833,000	$ 186,039,000

See independent auditors' report.