

Consolidated Financial Statements and Report of Independent Certified Public Accountants
North Texas Public Broadcasting, Inc.

June 30, 2007

Report of Independent Certified Public Accountants

Board of Directors
North Texas Public Broadcasting, Inc.

We have audited the accompanying consolidated statement of financial position of North Texas Public Broadcasting, Inc. (the Corporation) as of June 30, 2007, and the related consolidated statements of activities and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from the Corporation's 2006 consolidated financial statements and in our report dated September 30, 2006, we expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 North Texas Public Broadcasting, Inc. as of June 30, 2007, and the consolidated changes in its net assets and its consolidated cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

GRANT THORNTON LLP

Dallas, Texas
October 3, 2007

North Texas Public Broadcasting, Inc.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2007
(with comparative totals for 2006)

ASSETS	<u>2007</u>	<u>2006</u>
Cash and cash equivalents (of which \$997,279 and \$400,171, respectively, are restricted)	\$ 3,249,833	\$ 1,518,908
Accounts receivable	36,217	42,644
Contributions, pledges and grants receivable, net of allowance of \$123,797 and \$83,113, respectively	1,081,785	1,122,945
Note receivable	40,000	90,000
Investments, at market value	20,100,713	18,379,700
Prepaid expenses	670,058	681,598
Other assets	435,234	202,336
Property, plant and equipment, net	<u>10,644,243</u>	<u>11,498,455</u>
Total assets	<u>\$36,258,083</u>	<u>\$33,536,586</u>
LIABILITIES AND NET ASSETS		
Accounts payable and Accrued expenses	\$ 896,127	\$ 1,105,400
Capital lease payable	270,136	114,329
Deferred revenue	<u>1,070,035</u>	<u>400,171</u>
Total liabilities	2,236,298	1,619,900
Net assets		
Unrestricted	32,451,318	29,005,553
Temporarily restricted	320,467	1,661,133
Permanently restricted	<u>1,250,000</u>	<u>1,250,000</u>
Total net assets	<u>34,021,785</u>	<u>31,916,686</u>
Total liabilities and net assets	<u>\$36,258,083</u>	<u>\$33,536,586</u>

The accompanying notes are an integral part of these statements.

North Texas Public Broadcasting, Inc.

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended June 30, 2007
(with comparative totals for 2006)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2007 Total</u>	<u>2006 Total</u>
OPERATING REVENUES, GAINS AND OTHER SUPPORT					
Membership	\$ 8,387,182	\$ -	\$ -	\$ 8,387,182	\$ 8,219,140
Program underwriting	3,549,309	-	-	3,549,309	3,514,197
Educational resources	377,495	-	-	377,495	536,651
Special events	97,200	-	-	97,200	74,563
Community service grants	1,803,224	-	-	1,803,224	1,583,732
In-kind contributions	608,695	-	-	608,695	568,903
Productions (grant funded)					
Television	50,355	-	-	50,355	296,140
Radio	-	-	-	-	29,076
Promotion	-	-	-	-	417,321
Other income	<u>341,505</u>	<u>-</u>	<u>-</u>	<u>341,505</u>	<u>296,482</u>
Total operating revenues, gains and other support	15,214,965	-	-	15,214,965	15,536,205
OPERATING EXPENSES					
Program services					
Technical services	1,957,481	-	-	1,957,481	1,816,565
Television broadcasting	2,508,773	-	-	2,508,773	2,474,820
Programming for television	696,621	-	-	696,621	757,332
Educational resources	459,046	-	-	459,046	565,725
Radio	1,998,529	-	-	1,998,529	2,097,574
Content services	1,827,289	-	-	1,827,289	1,844,581
Productions (grant funded)					
Television	56,384	-	-	56,384	215,593
Radio	-	-	-	-	6,192
Promotion	<u>264</u>	<u>-</u>	<u>-</u>	<u>264</u>	<u>272,960</u>
	9,504,387	-	-	9,504,387	10,051,342
Support services					
General and administrative	1,379,704	-	-	1,379,704	1,482,933
Corporate communications	<u>406,380</u>	<u>-</u>	<u>-</u>	<u>406,380</u>	<u>379,301</u>
	1,786,084	-	-	1,786,084	1,862,234
Fundraising costs					
Membership development	2,172,488	-	-	2,172,488	2,065,025
Corporate/foundation development	1,239,045	-	-	1,239,045	1,145,432
Special events	<u>27,367</u>	<u>-</u>	<u>-</u>	<u>27,367</u>	<u>959</u>
	3,438,900	-	-	3,438,900	3,211,416
Total operating expenses	<u>14,729,371</u>	<u>-</u>	<u>-</u>	<u>14,729,371</u>	<u>15,124,992</u>
Change in net assets from operating activities	485,594	-	-	485,594	411,213

North Texas Public Broadcasting, Inc.

CONSOLIDATED STATEMENT OF ACTIVITIES - CONTINUED

Year ended June 30, 2007
(with comparative totals for 2006)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2007 Total</u>	<u>2006 Total</u>
NONOPERATING					
Investment return	\$ 2,709,573	\$ -	\$ -	\$ 2,709,573	\$ 1,641,932
Investment return released from restrictions	1,495,522	(1,495,522)	-	-	-
Split-interest agreement, change in value	-	2,554	-	2,554	(15,894)
Split-interest agreement, initial value	-	243,734	-	243,734	-
Capital funding contributions	-	-	-	-	188,094
Capital funding released from restrictions	91,432	(91,432)	-	-	-
Net loss from sale and retirement of assets	(14,036)	-	-	(14,036)	(35,237)
Depreciation and amortization	<u>(1,322,320)</u>	<u>-</u>	<u>-</u>	<u>(1,322,320)</u>	<u>(1,465,509)</u>
Change in net assets from nonoperating activities	2,960,171	(1,340,666)	-	1,619,505	313,386
Change in net assets	3,445,765	(1,340,666)	-	2,105,099	724,599
Net assets at beginning of year	<u>29,005,553</u>	<u>1,661,133</u>	<u>1,250,000</u>	<u>31,916,686</u>	<u>31,192,087</u>
Net assets at end of year	<u>\$32,451,318</u>	<u>\$ 320,467</u>	<u>\$1,250,000</u>	<u>\$34,021,785</u>	<u>\$31,916,686</u>

The accompanying notes are an integral part of these statements.

North Texas Public Broadcasting, Inc.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended June 30, 2007
(with comparative totals for 2006)

	2007	2006
Cash flows from operating activities		
Change in net assets	\$ 2,105,099	\$ 724,599
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,322,320	1,465,509
Loss on sale and retirement of assets	14,036	35,237
Unrealized gain on investments	(2,457,125)	(163,349)
Net realized gain on investments	432,508	(960,253)
Capital funding contributions	-	(172,969)
Changes in operating assets and liabilities		
Accounts, contributions, pledges, grants and note receivable	97,587	185,920
Prepaid expenses	11,540	(121,055)
Other assets	(232,898)	(30,092)
Deferred revenue	669,864	(279,568)
Accounts payable and accrued expenses	<u>(209,273)</u>	<u>(763,397)</u>
Net cash provided by (used in) operating activities	1,753,658	(79,418)
Cash flows from investing activities		
Purchase of property and equipment	(482,144)	(689,382)
Purchase of investments	(7,033,200)	(1,129,730)
Proceeds from sale or maturity of investments	<u>7,336,804</u>	<u>7,109,781</u>
Net cash provided by (used in) investing activities	(178,540)	5,290,669
Cash flows from financing activities		
Repayments on line of credit, capital lease and note payable	155,807	(5,398,151)
Contributions received for capital funding	<u>-</u>	<u>172,969</u>
Net cash provided by (used in) financing activities	<u>155,807</u>	<u>(5,225,182)</u>
Increase (decrease) in cash and cash equivalents	1,730,925	(13,931)
Cash and cash equivalents at beginning of year	<u>1,518,908</u>	<u>1,532,839</u>
Cash and cash equivalents at end of year	<u>\$ 3,249,833</u>	<u>\$ 1,518,908</u>
<u>Supplemental disclosure of cash flow information:</u>		
Cash paid for taxes	<u>\$ 9,351</u>	<u>\$ 9,036</u>
Cash paid for interest	<u>\$ 7,073</u>	<u>\$ 226,046</u>

Non cash investing and financing activities:

The Corporation acquired \$207,479 and \$32,174 of equipment through capital leases during the years ended June 30, 2007 and 2006, respectively.

The accompanying notes are an integral part of these statements.

North Texas Public Broadcasting, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2007

NOTE A - NATURE OF OPERATIONS

North Texas Public Broadcasting, Inc. (the Corporation) is a nonprofit corporation providing public educational broadcast services through its two licensed stations, KERA-TV and KERA-90.1 FM. These stations are the public television and radio stations for North Texas which broadcast high-quality programs to viewers and listeners in Dallas, Fort Worth, and other areas of North, East and West Texas, as well as parts of Oklahoma and Louisiana. KERA-TV is a member of the Public Broadcasting Service, American Program Service, and National Educational Telecommunications Association. KERA-90.1 FM is a member of National Public Radio and Public Radio International. These financial statements also include the accounts of North Texas Public Broadcasting Foundation (the Foundation). The sole purpose of the Foundation is to support the activities of the Corporation.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying consolidated financial statements of the Corporation include the accounts of the Foundation. All significant intercompany accounts and transactions have been eliminated.

Basis of Accounting

The accounts are maintained in conformity with the principles of not-for-profit accounting. The accompanying financial statements have been prepared on an accrual basis.

Basis of Presentation

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Corporation. Generally, the donors of these assets permit the Corporation to use all or part of the income earned on related investments for general or specific purposes.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met by actions of the Corporation and/or the passage of time.

Unrestricted net assets - Net assets not subject to donor-imposed stipulations.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporarily restricted net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets, unless restrictions are met in the same year as the gift is received, in which case the related contributions are reported as unrestricted revenue.

North Texas Public Broadcasting, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2007

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Contributions are recognized as revenues in the period unconditional promises to give are received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted using the risk free rate at the date the pledge was received. Amortization of discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

Realized and unrealized gains (losses) and income on investments of endowment and similar funds are reported as follows:

- as increases (decreases) in permanently restricted net assets if the terms of the gift require that they be included in principal of a permanent endowment fund;
- as increases (decreases) in temporarily restricted net assets if the terms of the gift impose restrictions on their use;
- as increases (decreases) in unrestricted net assets in all other cases.

Cash Equivalents

Cash equivalents are comprised of short-term investments with original maturities of three months or less.

Restricted Cash

Restricted cash represents funds received with donor-imposed restrictions to underwrite specific projects or for future capital expenditures.

Investments

Investments are stated at market value based on quoted market prices. The net realized and unrealized gains (losses) of investments are reflected in the consolidated statement of activities.

Credit Risk

The Corporation's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents and investments in marketable securities. The Corporation places its cash, cash equivalents and investments with high credit quality financial institutions, which, at times, may exceed federally insured limits. The Corporation has not experienced any losses on such accounts.

North Texas Public Broadcasting, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2007

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Accounts, Contributions, Pledges and Grants Receivable

The Corporation's receivables are principally due from members, donors and sponsors. Receivables are due on receipt for most membership donations. Receivables from sponsors for underwriting agreements are due per predetermined payment schedules related to underwriting program placement. All receivables are included on the consolidated statement of financial position at amounts due net of an allowance for doubtful accounts. The Corporation determines its allowances based on historical write-off trends. The Corporation writes off receivables when they become uncollectible based on a delinquency status in excess of 120 days and when the collection efforts have been transferred to a third-party agency. Payments subsequently received on such receivables are credited to the provision for bad debts account.

Membership Pledges

The Corporation engages in fundraising campaigns by offering special programs, on-air and mail fundraising appeals. These appeals encourage supporters, both individuals and organizations, to provide financial support to the Corporation for enhancement of program offerings and other operating expenses. Financial contributions are frequently evidenced by pledges received from responding viewers. Contributions and pledges are components of unrestricted net assets since their usage is not limited to specific activities of the Corporation.

Program Underwriting

Revenue for program underwriting is deferred and recognized on a pro rata basis for the period covered. The Corporation considers these contributions as conditional gifts in the year received or pledged and defers this revenue as the gift may be returned if the program sponsorship is not completed.

Productions and Educational Resources

Revenue for production and educational resource grants is deferred and recognized on the percentage of completion method. The Corporation considers these contributions as conditional gifts in the year received or pledged and defers this revenue as the gift may be returned if the production is not completed.

Special Events

Revenues and expenses relating to special events are recognized in the period the event takes place.

Community Service Grants

Grants received from the Corporation for Public Broadcasting (CPB) are recognized as revenue when received.

North Texas Public Broadcasting, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2007

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

In-kind Contributions and Contributed Services

Donated goods are recorded at their estimated fair market value when received. Contributions of services are recognized if the services received create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing these skills and would typically need to be purchased if not provided by donation.

Licensed Program Rights

Licensed program rights are recorded at cost. These programs are amortized on a straight-line basis over the period of the license agreement and are included in prepaid expenses in the accompanying consolidated financial statements.

Property, Plant and Equipment

Property, plant and equipment that are purchased for \$1,000 or more and that have a useful life of three years or greater are recorded at cost. Donated assets are recorded at fair market value as of the date of donation. Property, plant and equipment are depreciated using the straight-line method over periods based on the estimated useful life within each asset category as shown below.

<u>Description</u>	<u>Estimated Useful Life (in years)</u>
Land	N/A
Buildings	40
Building Improvements	27
Signs	20
Tower (Dallas)	15-16
Transmitter & Antenna - TV	15-16
Transmitter & Equipment - Radio	15-16
Studio & Video Equipment - TV	5-14
Vehicles	3
Studio & Video Equipment - Radio	5-14
Furniture & Fixtures	10
Computer Hardware	6
Computer Software	3
Master Control Equipment	8-14

Functional Allocation of Expenses

The costs of providing the activities of the Corporation have been summarized on a functional basis in the consolidated statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

North Texas Public Broadcasting, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2007

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Joint Costs

Joint costs included in conducting joint activities that are not identifiable with a particular component of the activity are allocated between fund-raising and program services, if the criteria for purpose, audience, and content set forth in Statement of Position 98-2 "*Accounting for Costs of Activities of Not-for-Profit Organizations and State and Local Governmental Entities That Include Fund Raising*" are met.

Measure of Operation

The Corporation adopted an intermediate measure of operations. The operating activities of the Corporation include all current income and expenses related to carrying out its mission of providing public education broadcasts. Primary operating activities exclude the following: 1) investment return, which includes realized and unrealized gains and losses on investments, dividends and interest earnings; 2) change in value of split-interest agreement; 3) restricted donations for capital expenditures; 4) net gains or losses from the sale or disposal of assets; as well as 5) depreciation and amortization expense.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (US GAAP) 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 and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Comparative Financial Statements

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Corporation's consolidated financial statements for the year ended June 30, 2006, from which the summarized information was derived.

New Accounting Pronouncements

In July 2006, the FASB issued FASB (FIN) 48, *Accounting for Uncertainty in Income Taxes: an interpretation of FASB Statement No. 109* (FIN 48). FIN 48, which clarifies FASB Statement No. 109, *Accounting for Income Taxes*, establishes the criterion that an individual tax position has to meet for some or all of the benefits of that position to be recognized in the Corporation's financial statements. On initial application, FIN 48 will be applied to all tax positions for which the statute of limitations remains open. Only tax positions that meet the more-likely-than-not recognition threshold at the adoption date will be recognized or continue to be recognized. The cumulative effect of applying FIN 48 will be reported as an adjustment to net assets at the beginning of the period in which it is adopted. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Corporation has not yet determined the impact of this interpretation on its consolidated financial statements.

North Texas Public Broadcasting, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2007

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurement*. This new standard provides guidance for using fair value to measure assets and liabilities. SFAS 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value but does not expand the use of fair value in any new circumstances. The standard clarifies that for items that are not actively traded, such as certain kinds of derivatives, fair value should reflect the price in a transaction with a market participant, including an adjustment for risk, not just the organization's mark-to-model value. SFAS 157 also requires expanded disclosure of the effect on earnings for items measured using unobservable data. Under SFAS 157, fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. In this standard, the FASB clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability. The provisions of SFAS 157 are effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Earlier application is encouraged, provided that the reporting entity has not yet issued financial statements for that fiscal year, including any financial statements for an interim period within that fiscal year. The Corporation has not yet determined the impact of this statement on its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement 115*. The statement permits entities to choose to measure certain financial instruments and other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Corporation has not yet determined the impact of this statement on its consolidated financial statements.

NOTE C - INVESTMENTS

Investments at market value consist of the following:

	<u>June 30,</u>	
	<u>2007</u>	<u>2006</u>
Equity investments - mutual funds	\$15,100,713	\$12,870,111
Corporate bonds	-	5,509,589
Money Market Investment	<u>5,000,000</u>	<u>-</u>
	<u>\$20,100,713</u>	<u>\$18,379,700</u>

North Texas Public Broadcasting, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2007

NOTE C - INVESTMENTS - Continued

The following summarizes investment return:

	June 30,	
	2007	2006
Dividend and interest income	\$ 734,956	\$ 564,163
Investment manager fees	(50,000)	(45,833)
Net realized (loss) gain on investments	(432,508)	960,253
Net unrealized gain on investments	<u>2,457,125</u>	<u>163,349</u>
	<u>\$2,709,573</u>	<u>\$1,641,932</u>

These investments are restricted by the Corporation's board of directors for long-term purposes. The board will approve distributions on an annual basis. Included in these investments are both permanently restricted net assets and temporarily restricted net assets as disclosed in Note K.

NOTE D - CONTRIBUTIONS, PLEDGES AND GRANTS RECEIVABLE

Contributions, pledges and grants receivable consist of the following unconditional promises to give:

	June 30,	
	2007	2006
Capital funding	\$ 33,551	\$ 58,370
Program underwriting	657,484	575,315
Pledge campaigns	511,847	346,408
Grants receivable	<u>2,700</u>	<u>225,965</u>
	1,205,582	1,206,058
Allowance for doubtful accounts	<u>(123,797)</u>	<u>(83,113)</u>
Contributions, pledges and grants receivable, net	<u>\$1,081,785</u>	<u>\$1,122,945</u>

All receivable balances are due and collectible within 12 months.

North Texas Public Broadcasting, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2007

NOTE E - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	<u>June 30,</u>	
	<u>2007</u>	<u>2006</u>
Buildings and improvements	\$ 7,225,726	\$ 7,180,413
Studio and transmission equipment	12,535,192	12,971,828
Data processing equipment	2,005,061	2,888,066
Furniture and fixtures	513,426	584,329
Construction in progress	<u>33,583</u>	<u>-</u>
	22,312,988	23,624,636
Less accumulated depreciation	<u>(12,150,887)</u>	<u>(12,608,323)</u>
	10,162,101	11,016,313
Land	<u>482,142</u>	<u>482,142</u>
	<u>\$ 10,644,243</u>	<u>\$ 11,498,455</u>

Depreciation and amortization expense was \$1,322,320 and \$1,465,509 for the years ended June 30, 2007 and 2006, respectively.

NOTE F - COMMUNITY SERVICE GRANTS

CPB is a private, nonprofit grant making organization responsible for funding more than 1,000 television and radio stations. CPB distributes annual Community Service Grants (Grants) to qualifying public telecommunications entities. The Grants are approved by the U.S. Congress each year and could be reduced in the future.

The Grants are reported in the accompanying consolidated financial statements as unrestricted net assets; however, certain guidelines must be satisfied in connection with application for and use of the Grants to maintain eligibility and compliance requirements. These guidelines pertain to the use of Grant funds, recordkeeping, audits, financial reporting, and licensee status with the Federal Communications Commission.

NOTE G - BORROWING AGREEMENTS

A credit agreement was entered into as of December 1, 2004 that provides for a revolving credit facility (LOC) with maximum borrowings of \$2,000,000. The outstanding LOC balance bears interest at the Corporation's option of either LIBOR plus 1.75% or the prime rate in effect from time to time (8.25% at June 30, 2007 and at June 30, 2006). The LOC principle balance is due and payable in full on December 1, 2007. The agreement includes covenants which require certain financial ratios as well as restrictions on changes in the nature of the Corporation's operations. At June 30, 2007 and 2006, the Corporation had no outstanding borrowings on the LOC.

North Texas Public Broadcasting, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2007

NOTE H - COMMITMENTS AND CONTINGENCIES

The Corporation leases broadcasting tower space for the transmission of its radio and television signals under noncancellable operating leases. Certain tower space for KERA-TV has been donated to the Corporation. Certain leases include escalation clauses that range from 3% to 5% per year. A KERA-Radio lease includes an automatic renewal of three additional five year terms following the end of the initial term, which ends May 31, 2012. Future minimum rental commitments under noncancellable operating leases are as follows:

Years ending <u>June 30,</u>	
2008	\$147,934
2009	118,778
2010	111,097
2011	103,653
2012	<u>105,999</u>
Total	<u>\$587,461</u>

Total rental expense was approximately \$247,000 and \$235,000 for the years ended June 30, 2007 and 2006, respectively. Included in the amounts for both years is \$84,000 in donated tower rental fees for KERA-TV, which is also the amount included in in-kind revenue.

During fiscal years 2007 and 2006, the Corporation entered into capital leases for office and technical equipment. The following is a summary of property under capital lease:

	<u>June 30,</u>	
	<u>2007</u>	<u>2006</u>
Equipment	\$ 372,731	\$165,252
Less accumulated amortization	<u>(104,498)</u>	<u>(54,158)</u>
	<u>\$ 268,233</u>	<u>\$111,094</u>

North Texas Public Broadcasting, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2007

NOTE H - COMMITMENTS AND CONTINGENCIES - Continued

Schedule of future minimum lease payments under capital lease obligations together with the present value of the net minimum lease payments as of June 30, 2007 is as follows:

Year ending <u>June 30,</u>	
2008	\$ 88,520
2009	88,520
2010	64,313
2011	53,385
2012	<u>26,586</u>
Total minimum lease payments	321,324
Less amount representing interest	<u>(51,188)</u>
Present value of net minimum lease payments	<u>\$270,136</u>

The Corporation is party to various legal proceedings arising in the ordinary course of business. Management believes that the resolution of these matters will not have a significant adverse effect on the Corporation's consolidated financial position, changes in net assets or cash flows.

NOTE I - INCOME TAXES

The Corporation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (the Code). The Internal Revenue Service has also recognized the Corporation as a public charity under Section 509(a)(1) of the Code. The Corporation recognized income taxes of approximately \$5,000 and \$7,000 for unrelated business income during year ended June 30, 2007 and 2006, respectively.

The Foundation is exempt from federal income tax under Section 501(c)(3) of the Code and had no taxable activity.

NOTE J - BENEFIT PLANS

All employees meeting minimum eligibility requirements were covered from July 1, 2005 until January 1, 2006 by the North Texas Money Purchase Pension Plan. From July 1, 2005 through September 30, 2005 the Corporation contributed 4% of a participant's Annual Compensation to the Plan plus an additional amount, which was equal to 3.5% of the participant's Annual Compensation for the Plan Year that is greater than the Plan's integration level for the Plan Year. The Plan's integration level was 20% of the Social Security Taxable Wage Base in effect on January 1 of each calendar year.

North Texas Public Broadcasting, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2007

NOTE J - BENEFIT PLANS - Continued

Effective October 1, 2005 a modification was made to the plan and required contributions which equaled 4% of each Participant's Annual Compensation for the Plan Year. The additional contribution based on the Plan's integration level was no longer made. Also effective October 1, 2005, all Participants employed on such date were 100% vested in their Employer Contribution Account as of October 1, 2005. On and after October 1, 2005, all Participants were immediately 100% vested in all Required Contributions made on their behalf.

Effective January 1, 2006, contributions to the North Texas Public Broadcasting Money Purchase Pension Plan were no longer made. Effective April 1, 2006 the North Texas Public Broadcasting, Inc. Money Purchase Pension Plan was terminated.

Effective January 1, 2006, employer contributions at a rate of 4% were made to the North Texas Public Broadcasting Savings and Retirement plan which is a 403(b) plan. Any employee of North Texas Public Broadcasting, Inc. can also contribute up to the IRS limits of their respective annual wages per year whether they are eligible for the employer contribution or not.

The Corporation's contributions for the years ended June 30, 2007 and 2006 were approximately \$198,000 and \$223,000, respectively.

NOTE K - RESTRICTIONS ON NET ASSETS

Permanently restricted net assets are restricted for the following purposes:

	<u>June 30,</u>	
	<u>2007</u>	<u>2006</u>
National Endowments for the Arts cash reserve endowment	\$1,000,000	\$1,000,000
Educational programming	<u>250,000</u>	<u>250,000</u>
	<u>\$1,250,000</u>	<u>\$1,250,000</u>

North Texas Public Broadcasting, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2007

NOTE K - RESTRICTIONS ON NET ASSETS - Continued

Temporarily restricted net assets are restricted for the following purposes:

	June 30,	
	2007	2006
Endowment earnings to be used for operations, programs, or reinvestment	\$ -	\$1,495,522
Capital expenditures for radio or television operations	-	91,432
Beneficial interest in a charitable remainder trust, net of present value discounts of \$490,446	243,734	-
Beneficial interest in a charitable remainder trust, net of present value discounts of \$86,398 and \$84,382, respectively	76,733	74,179
	\$320,467	\$1,661,133

The Corporation holds a partial interest in two charitable remainder trusts. The investments held in the trusts are stated at market value based on quoted market prices. The present value discounts were calculated based on the five year Treasury bill rate of 5.25% at June 30, 2007 and the actuarial assumption of a life expectancy of 21.55 years and 14.74 years, respectively.

NOTE L - FUNCTIONAL ALLOCATION OF EXPENSES

The Corporation excludes depreciation and amortization from functional expense categories in the consolidated statement of activities for the fiscal years ended June 30, 2007 and 2006. Those expenses would be allocated to the functional areas as follows:

	Years ended June 30,	
	2007	2006
Program services	\$1,018,186	\$1,128,442
Support services	198,348	219,826
Fundraising costs	105,786	117,241
	\$1,322,320	\$1,465,509

North Texas Public Broadcasting, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2007

NOTE M - ALLOCATION OF JOINT COSTS

Joint costs paid by the Company to outside firms for program services and activities that included fund-raising appeals have been allocated as follows:

	<u>Years ended June 30,</u>	
	<u>2007</u>	<u>2006</u>
Content Services	\$147,265	\$150,636
Fund-raising - Membership	<u>589,062</u>	<u>602,543</u>
	<u>\$736,327</u>	<u>\$753,179</u>

NOTE N - IN-KIND CONTRIBUTIONS AND DONATED PERSONAL SERVICES OF VOLUNTEERS

The Corporation receives in-kind contributions consisting of donated legal services, radio traffic report services and donated television tower space. These donations are presented at their estimated fair value of approximately \$608,000 and \$569,000 for the years ended June 30, 2007 and 2006, respectively. The amounts are included in unrestricted in-kind contributions and general and administrative and radio and television broadcasting expenses in the consolidated statement of activities.

The Corporation also receives donated personal services of volunteers which approximated \$248,000 and \$303,000 for the years ended June 30, 2007 and 2006, respectively, and are not reflected in the accompanying consolidated statement of activities because they do not meet the criteria for recognition under US GAAP. The estimated fair value of these services is based upon standard valuation rates and job classifications developed by the CPB.

NOTE O - REGULATORY MATTERS

The Corporation is in compliance with the Federal Communications Commission (FCC) mandate to convert from an analog transmission signal to a digital signal and has obtained permanent licensing for its digital operations. The impairment of the asset values of the existing analog equipment cannot be determined at this time because the equipment is still being utilized by the Corporation. The simultaneous broadcast of digital and analog signals is anticipated to continue until February 17, 2009.

North Texas Public Broadcasting, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2007

NOTE P - SUBSEQUENT EVENT

The Corporation, together with nine other major market public television stations and PBS, holds a 2% individual interest in National Public Broadcasting, Inc. (NPB), a for-profit company which represents underwriting opportunities for many public television entities. The Corporation has made no payments for the 2% interest and the income from this business relationship has been immaterial. In September 2007, the Corporation received notice that there is an offer for NPB to be purchased. The offer is still in an early stage of negotiation. In addition, the transaction requires approval of at least 50% of the stations with investment interests in NPB before it can be consummated. Due to the significant uncertainties surrounding the transaction, the Corporation is unable to estimate the amount of gain contingencies from the transaction.