North Texas Public Broadcasting, Inc.

Consolidated Financial Report
June 30, 2011

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McGladrey

Independent Auditor's Report

Board of Directors
North Texas Public Broadcasting, Inc.
Dallas, Texas

We have audited the accompanying consolidated statements of financial position of North Texas Public Broadcasting, Inc. (the "Corporation") for the year ended June 30, 2011, and the related consolidated statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Corporation's 2010 financial statements and in our report dated November 11, 2010, we expressed an unqualified opinion on those financial statements.

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 financial position of North Texas Public Broadcasting, Inc. as of June 30, 2011, 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.

McGladrey & Pullen, LLP

Dallas, Texas
October 11, 2011

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North Texas Public Broadcasting, Inc.

Consolidated Statements of Financial Position
June 30, 2011 and 2010

ASSETS	**2011**	2010
Cash and cash equivalents	**$ 644,636**	$ 526,899
Restricted cash and cash equivalents	**84,164**	511,701
Total cash and cash equivalents	**728,800**	1,038,600
Accounts receivable	**2,680**	77,068
Contributions, pledges and grants receivable, net of allowance	**1,432,535**	1,691,838
Investments	**17,595,512**	14,670,341
Property, plant and equipment, net	**8,602,583**	8,585,574
Prepaid expenses	**683,349**	561,449
FCC broadcast license	**18,250,276**	18,250,276
Other assets	**557,333**	573,929
Total assets	**$ 47,853,068**	$ 45,449,075
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	**$ 1,577,790**	$ 1,978,501
Capital lease payable	**130,044**	72,747
Deferred lease liability	**50,771**	-
Refundable advances	**477,260**	-
Deferred revenue	**-**	101,701
Notes payable	**17,500,000**	17,500,000
Total liabilities	**19,735,865**	19,652,949
Commitments		
Net assets:		
Unrestricted	**26,626,740**	24,024,403
Temporarily restricted	**490,463**	771,723
Permanently restricted	**1,000,000**	1,000,000
Total net assets	**28,117,203**	25,796,126
Total liabilities and net assets	**$ 47,853,068**	$ 45,449,075

See Notes to Consolidated Financial Statements.

North Texas Public Broadcasting, Inc.

Consolidated Statements of Activities
Year Ended June 30, 2011
(With summarized financial information for the year ended June 30, 2010)

	2011				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2010
Operating revenues, gains and other support:					
Membership	**$ 10,623,411**	**$ 10,500**	**$ -**	**$ 10,633,911**	$ 9,737,913
Underwriting	**3,945,415**	**-**	**-**	**3,945,415**	3,596,472
Educational resources	**105,950**	**29,000**	**-**	**134,950**	224,025
Special events	**146,756**	**-**	**-**	**146,756**	130,100
Community service grants	**1,857,297**	**-**	**-**	**1,857,297**	1,920,595
Grants for capital expenditures	**553,670**	**55,164**	**-**	**608,834**	410,000
Other grants	**25,179**	**-**	**-**	**25,179**	313,780
In-kind contributions	**116,533**	**-**	**-**	**116,533**	141,020
Television productions (grant funded)	**31,000**	**-**	**-**	**31,000**	543,216
Other income	**157,940**	**-**	**-**	**157,940**	308,064
Net assets released from restrictions	**410,000**	**(410,000)**	**-**	**-**	-
Total operating revenues, gains and other support	**17,973,151**	**(315,336)**	**-**	**17,657,815**	17,325,185
Operating expenses:					
Program services:					
Technical services	**2,191,406**	**-**	**-**	**2,191,406**	2,522,588
Television broadcasting	**2,424,028**	**-**	**-**	**2,424,028**	2,649,245
Television programming	**618,278**	**-**	**-**	**618,278**	721,845
Educational resources	**164,020**	**-**	**-**	**164,020**	317,574
Radio	**2,696,818**	**-**	**-**	**2,696,818**	2,519,083
Content services	**2,883,557**	**-**	**-**	**2,883,557**	2,956,877
Television productions (grant funded)	**3,562**	**-**	**-**	**3,562**	537,714
	10,981,669	**-**	**-**	**10,981,669**	12,224,926
Support services:					
General and administrative	**2,776,785**	**-**	**-**	**2,776,785**	2,629,497
Corporate communications	**299,375**	**-**	**-**	**299,375**	304,048
	3,076,160	**-**	**-**	**3,076,160**	2,933,545
Fundraising costs:					
Membership development	**2,483,618**	**-**	**-**	**2,483,618**	2,518,032
Corporate/foundation development	**1,084,752**	**-**	**-**	**1,084,752**	768,095
Special events	**63,148**	**-**	**-**	**63,148**	23,822
	3,631,518	**-**	**-**	**3,631,518**	3,309,949
Total operating expenses	**17,689,347**	**-**	**-**	**17,689,347**	18,468,420
Change in net assets from operating activities	**283,804**	**(315,336)**	**-**	**(31,532)**	(1,143,235)

North Texas Public Broadcasting, Inc.

Consolidated Statements of Activities (Continued)
Year Ended June 30, 2011
(With summarized financial information for the year ended June 30, 2010)

	2011				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2010
Nonoperating:					
Investment return	**$ 3,498,766**	**$ -**	**$ -**	**$ 3,498,766**	$ 1,755,529
Change in value of split-interest agreements	**-**	**34,076**	**-**	**34,076**	64,593
Loss on retirement of assets	**(14,908)**	**-**	**-**	**(14,908)**	-
Depreciation and amortization	**(1,165,325)**	**-**	**-**	**(1,165,325)**	(1,409,082)
Change in net assets from nonoperating activities	**2,318,533**	**34,076**	**-**	**2,352,609**	411,040
Change in net assets	**2,602,337**	**(281,260)**	**-**	**2,321,077**	(732,195)
Net assets, beginning of year	**24,024,403**	**771,723**	**1,000,000**	**25,796,126**	26,528,321
Net assets, end of year	**$ 26,626,740**	**$ 490,463**	**$ 1,000,000**	**$ 28,117,203**	$ 25,796,126

See Notes to Consolidated Financial Statements.

North Texas Public Broadcasting, Inc.

Consolidated Statements of Cash Flows
Years Ended June 30, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Change in net assets	**$ 2,321,077**	$ (732,195)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation of property, plant and equipment	**1,120,289**	1,375,309
Amortization of debt issuance costs	**45,036**	33,773
Loss on retirement of assets	**14,908**	-
Unrealized (gain) loss on investments	**(3,143,737)**	1,041,247
Net realized gain on investments	**-**	(2,554,412)
Change in value of split-interest agreements	**(34,076)**	(64,593)
Noncash gifts	**(86,570)**	-
Changes in operating assets and liabilities:		
Accounts, contributions, pledges and grants receivable	**333,691**	(157,428)
Prepaid expenses	**(121,900)**	(107,510)
Other assets	**5,636**	916,839
Accounts payable and accrued expenses	**(400,711)**	1,020,512
Deferred lease liability	**50,771**	-
Refundable advances	**477,260**	-
Deferred revenue	**(101,701)**	(614,158)
Net cash provided by operating activities	**479,973**	157,384
Cash flows from investing activities:		
Purchase of property, plant and equipment	**(1,031,812)**	(368,768)
Purchase of investments	**(1,257,476)**	(15,908,949)
Redemptions of investments	**1,562,612**	17,698,753
Purchase of FCC broadcast license	**-**	(18,250,276)
Net cash used in investing activities	**(726,676)**	(16,829,240)
Cash flows from financing activities:		
Borrowings on notes payable	**-**	17,500,000
Net payments on line of credit	**-**	(999,999)
Payments for capital leases	**(63,097)**	(47,269)
Net cash (used in) provided by financing activities	**(63,097)**	16,452,732
Net decrease in cash and cash equivalents	**(309,800)**	(219,124)
Cash and cash equivalents, beginning of year	**1,038,600**	1,257,724
Cash and cash equivalents, end of year	**$ 728,800**	$ 1,038,600
Supplemental disclosure of cash flow information:		
Cash paid for taxes	**$ 6,250**	$ 3,830
Cash paid for interest	**$ 1,104,073**	$ 826,131
Supplemental noncash flow disclosure:		
Purchase of property, plant and equipment under capital lease	**$ 120,394**	$ -

See Notes to Consolidated Financial Statements.

Note 1. Nature of Operations

North Texas Public Broadcasting, Inc. (the Corporation) is a nonprofit corporation providing public educational broadcast services through its three licensed stations, KERA-TV Channel 13, KERA-90.1 FM, and KKXT-91.7 FM. These stations are the public television and radio stations 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 Channel 13 is a member of the Public Broadcasting Service, American Public Television and National Educational Telecommunications Association. KERA-90.1 FM and KKXT-91.7 FM are members 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 2. Summary of Significant Accounting Policies

Principles of Consolidation

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

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 agreements; 3) net gains or losses from the sale or disposal of assets; as well as 4) depreciation and amortization expense.

Comparative Financial Statements

The consolidated 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, 2010, from which the summarized information was derived.

Use of Estimates

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

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 net assets released from restrictions 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.

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 market 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.

Conditional promises to give are not recorded as revenue until the donor imposed conditions are met by the Corporation.

Cash and Cash Equivalents

Cash and 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, for future events or for future capital expenditures.

Investments

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

Certificates of deposit are stated at their initial investment amount plus any interest that has been earned and credited to the certificate of deposit.

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, except accounts receivable, are included on the consolidated statement of financial position at amounts due net of an allowance for doubtful accounts. The Corporation determines its allowance based on historical write-off trends. The Corporation writes off receivables when they become uncollectible based on a delinquency status in excess of 180 days or are deemed uncollectible by management. Payments subsequently received on such receivables are credited to the provision for bad debts account. The Corporation historically has had minimal losses on accounts receivable, accordingly, no allowance has been provided in the consolidated statements of financial position.

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. Membership revenue is recognized at the time of donation or when a commitment is made by the member.

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

The grants received from the Corporation for Public Broadcasting (CPB) are recognized as revenue ratably throughout the year.

In-Kind Contributions

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 expensed on a straight-line basis over the period of the license agreement and are included in prepaid expenses in the consolidated statements of financial position.

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.

Joint Costs

Joint costs included in conducting joint activities that are not identifiable with a particular component of the activity are allocated between fundraising and program services, if the criteria for purpose, audience and content are met.

Property, Plant and Equipment

Property, plant and equipment that are purchased for $1,000 or more and have a useful life of three years or greater are capitalized. Donated assets are recorded at fair market value at 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.

Description	Estimated Useful Life (In Years)
Land	N/A
Buildings	40
Building improvements	27
Signs	20
Tower (Dallas)	15-16
Transmitter and antenna – TV	15-16
Transmitter and equipment – radio	15-16
Studio and video equipment – TV	5-14
Vehicles	3
Studio and video equipment – radio	5-14
Furniture and fixtures	10
Computer hardware	6
Computer software	3
Master control equipment	8-14

Long-Lived Assets

Long-lived assets are evaluated for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. An impairment is considered to exist if the total estimated future cash flows on an undiscounted basis are less than the carrying amount of the assets. If impairment exists, the impairment loss is measured and recorded based on discounted estimated future cash flows. In estimating future cash flows, assets are grouped at the lowest levels for which there are identifiable cash flows that are largely independent of cash flows from other asset groups. The Corporation's estimate of future cash flows is based upon, among other things, certain assumptions about expected future operating performance, growth rates and other factors. The actual cash flows realized from these assets may vary significantly from the Corporation's estimates due to increased competition, changes in technology, fluctuations in demand, consolidation of its customers and reductions in average selling prices. Assumptions underlying future cash flow estimates are therefore subject to significant risks and uncertainties.

FCC Broadcast License

The Federal Communications Commission (FCC) broadcast license is an indefinite lived asset that is not amortized. However, the Corporation performs impairment testing on the FCC broadcast license annually or when an event triggering impairment may have occurred. An impairment is considered to exist if the fair value of the FCC broadcast license is less than the carrying amount. If impairment exists, the impairment loss is measured by the difference between the fair value and carrying amount. The Corporation's estimate of fair value is based upon, among other things, market conditions including other acquisitions of FCC broadcast licenses. Assumptions underlying fair value estimates are subject to significant risks and uncertainties. As of June 30, 2011, management has determined that no impairment exists.

Refundable Advances

Refundable advances consist of funds received for a future event that will be refunded if the Corporation does not host the event. The refundable advances will be recognized as revenue when the event takes place.

Deferred Lease Liability

The Corporation's operating lease agreements include certain escalation provisions. Rent expense is recognized on a straight-line basis over the initial lease term, unless the renewal term is reasonably assured in which case the renewal period is included. The difference between the rent due under the stated terms of the lease compared to that of the straight-line basis is recorded as deferred lease liability in the consolidated statements of financial position.

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. For the years ended June 30, 2011 and 2010, the Corporation recognized approximately $6,000 and $4,000 of income taxes for unrelated business income, respectively.

The Financial Accounting Standards Board (FASB) provides guidance for how uncertain tax positions should be recognized, measured, disclosed and presented in the financial statements. This requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Corporation's tax return to determine whether the tax positions are "more-likely-than-not" of being sustained "when challenged" or "when examined" by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax benefit or expense and liability in the current year. Management has determined that there are no material uncertain income tax positions. The Corporation is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years prior to 2007.

Reclassifications

Certain reclassifications have been made to the 2010 consolidated financial statements to conform them to the 2011 financial statements presentation. The reclassifications had no effect on the change in net assets as previously reported.

Subsequent Event Review

In preparing these consolidated financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through October 11, 2011, the date on which the financial statements were available to be issued.

Endowment Classification

In August 2008, FASB issued guidance for "Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds" . The guidance provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). The guidance also improves disclosures about an organization's endowment funds (both donor restricted endowment funds and board designated endowment funds) whether or not the organization is subject to UPMIFA. The adoption of the guidance did not have a significant impact on the Corporation's financial position and related statements of activities and changes in net assets and cash flows.

The Corporation's endowments consist of two funds established for the National Endowments for the Arts and educational purposes. Management has determined that the Corporation's permanently restricted net assets do meet the definition of endowment funds under UPMIFA.

There were no changes in endowment assets for the fiscal years ended June 30, 2011 and 2010.

The Board of Directors does not have the ability to distribute any amount of the corpus of any gift or fund. In accordance with UPMIFA, the organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the organization
- The investment policies of the organization

As a result of the inability to distribute corpus, the Corporation classifies permanently restricted assets at the original value of the gift and any subsequent gifts to the endowment.

Generally, if the corpus of a contribution will at some future time become available for spending, it is recorded as temporarily restricted. In addition, contributions that are promised to be given in a future period are presented as temporarily restricted until the payments are due.

Endowment Investment and Spending Policies

The Corporation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment. The Corporation's investment and spending policies work together to achieve this objective. The investment policy establishes an achievable return objective through diversification of asset classes. The current long-term return objective is to compare to a similarly weighted benchmark representing the returns of the S&P 500 Index, the Russell 2000 Index and the Intermediate Government/Corporate Index. The performance is also compared to the general inflation rate as measured by the Consumer Price Index.

The Corporation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk parameters.

The spending policy calculates the amount of money annually distributed from the Corporation's various endowed funds. The current spending policy is to distribute an amount equal to 4% of the average balance at quarter end of the 12 quarters preceding the current fiscal year, restricted to available earnings.

Note 3. Investments

Investments at market value consist of the following at June 30:

	2011	2010
Certificate of deposit	**$ 4,008,248**	$ 4,008,248
Mutual funds	**13,587,264**	10,662,093
	$ 17,595,512	$ 14,670,341

The following summarizes investment return for the years ended June 30:

	2011	2010
Dividend and interest income	**$ 355,029**	$ 242,432
Investment manager fees	**-**	(68)
Net realized gain on investment	**-**	2,554,412
Net unrealized gain (loss) on investments	**3,143,737**	(1,041,247)
	$ 3,498,766	$ 1,755,529

Included in these investments are permanently restricted endowments as disclosed in Note 10.

During June 2011, the Corporation received approximately $90,000 of mutual funds from a donor's estate. To remain in compliance with the Corporation's policy, which is to liquidate all investment gifts, the account was liquidated and closed during July 2011.

Note 4. Contributions, Pledges and Grants Receivable

Contributions, pledges and grants receivable consist of the following unconditional promises to give at June 30:

	2011	2010
Program underwriting	**$ 616,099**	$ 476,902
Pledge campaigns	**1,096,132**	1,271,506
Grants receivable	**13,340**	223,297
	1,725,571	1,971,705
Allowance for doubtful accounts	**(293,036)**	(279,867)
Contributions, pledges and grants receivable, net	**$ 1,432,535**	$ 1,691,838

The contributions, pledges and grants receivable are generally due within twelve months. As of June 30, 2011 and 2010, conditional promises to give were approximately $65,000 and $478,000, respectively. These grants will be recorded as revenue when all conditions have been met.

Note 5. Property, Plant and Equipment

Property, plant and equipment consist of the following at June 30:

	2011	2010
Building and improvements	**$ 7,458,134**	$ 7,422,745
Studio and transmission equipment	**12,843,151**	12,036,632
Data processing equipment	**658,202**	1,056,394
Furniture and fixtures	**661,654**	541,272
	21,621,141	21,057,043
Less accumulated depreciation	**(13,500,700)**	(12,953,611)
	8,120,441	8,103,432
Land	**482,142**	482,142
	$ 8,602,583	$ 8,585,574

Note 6. 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 7. Notes Payable

Debt consisted of the following at June 30:

	2011	2010
Note payable due to a corporation at a fixed interest rate of 6.5%. Principal balance due in full upon maturity on September 30, 2014. Interest payments due in arrears on the first of each month through maturity. Note is collateralized by substantially all assets.	**$ 500,000**	$ 500,000
Note payable due to a bank at a fixed interest rate of 5.5%. Principal balance due in full upon maturity on September 30, 2014. Interest payments due in arrears on the first of each month through maturity. Note is collateralized by substantially all assets.	**4,000,000**	4,000,000
Note payable due to a not-for-profit corporation at a variable interest rate of prime plus 3% (6.25% as of June 30, 2011). Principal balance due in full upon maturity on September 30, 2014. Interest payments due in arrears on the first of each month through maturity. Note is collateralized by substantially all assets.	**4,000,000**	4,000,000
Note payable due to a not-for-profit corporation at a variable interest rate of prime plus 3% (6.25% as of June 30, 2011). Principal balance due in full upon maturity on September 30, 2014. Interest payments due in arrears on the first of each month through maturity. Note is collateralized by substantially all assets.	**6,000,000**	6,000,000
Note payable due to a not-for-profit corporation at a fixed interest rate of 6.5%. Principal balance due in full upon maturity on September 30, 2014. Interest payments due in arrears on the first of each month through maturity. Note is collateralized by substantially all assets.	**500,000**	500,000
Note payable due to a limited liability company at a fixed interest rate of 5.25%. Principal balance due in full upon maturity on September 30, 2014. Interest payments due in arrears on the first of each month through maturity. Note is collateralized by substantially all assets.	**2,500,000**	2,500,000
	$ 17,500,000	$ 17,500,000

Maturities of long-term debt over the next five years are as follows at June 30, 2011:

Years ending June 30:	
2012	$ -
2013	-
2014	-
2015	17,500,000
	$ 17,500,000

The Company's long-term debt agreements contain financial covenants that require, among other things, the maintenance of certain financial and nonfinancial covenants. At June 30, 2011 and 2010, the Corporation was not in compliance with all covenants but management was able to obtain a waiver from the financial institutions.

The Corporation had a line of credit available through Wells Fargo Bank. The available line of credit was $999,999 and expired on June 5, 2011. As of June 30, 2011 and 2010, there was no amount outstanding on this line of credit.

In July 2010, the Corporation obtained a $1,000,000 line of credit with Frost National Bank that has a stated interest rate of 1% above prime with principal balance due in full upon maturity on November 21, 2011 and accrued interest to be paid on the 21st of the month beginning August 21, 2011. As of June 30, 2011, there was no amount outstanding on this line of credit.

Interest expense was approximately $1,104,000 and $855,000 for the years ended June 30, 2011 and 2010, respectively. The amounts are included in unrestricted general and administrative expenses in the consolidated statement of activities.

Note 8. Commitments

The Corporation leases broadcasting tower space for the transmission of its radio and television signals under noncancelable 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 September 30, 2018.

Future minimum rental commitments under noncancelable operating leases at June 30, 2011 are as follows:

Years ending June 30:	
2012	$ 383,002
2013	271,204
2014	252,012
2015	242,916
2016	247,684
Thereafter	663,050
	$ 2,059,868

Total rental expense was approximately $394,000 and $360,000 for the years ended June 30, 2011 and 2010, respectively. Included in the amounts for both years is $84,000 in donated tower rental fees for KERA-TV, which is included in in-kind contributions in the consolidated statements of activities.

The following is a summary of property under capital leases:

	2011	2010
Equipment	**$ 327,873**	$ 340,557
Less accumulated amortization	**(201,332)**	(271,398)
	$ 126,541	$ 69,159

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, 2011 is as follows:

Years ending June 30:	
2012	$ 53,935
2013	27,350
2014	27,350
2015	27,350
2016	6,838
Total minimum lease payments	142,823
Less amount representing interest	(12,779)
Present value of net minimum lease payments	$ 130,044

Note 9. Benefit Plans

Discretionary contributions are made by the Corporation up to 4% of the wages of eligible employees to the North Texas Public Broadcasting Savings and Retirement Plan which is a 403(b) plan. Any employee of the Corporation 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, 2011 and 2010 were approximately $146,000 and $132,000, respectively.

Note 10. Restrictions on Net Assets

Permanently restricted net assets are restricted for the following purposes:

	2011	2010
National Endowments for the Arts cash reserve endowment	**$ 750,000**	$ 750,000
Educational programming	**250,000**	250,000
	$ 1,000,000	$ 1,000,000

The changes in endowment assets for the years ended June 30, 2011 and 2010 are summarized below:

	Unrestricted	Temporarily Restricted	Permanently Restricted
Endowment assets at June 30, 2009	$ (178,860)	$ -	$ 1,000,000
Investment return	96,379	-	-
Endowment assets at June 30, 2010	(82,481)	-	1,000,000
Investment return	238,432	-	-
Endowment assets appropriated for spending	(155,951)	-	-
Endowment assets at June 30, 2011	$ -	$ -	$ 1,000,000

Temporarily restricted net assets are restricted for the following purposes:

	2011	2010
Split-interest agreements	**$ 395,799**	$ 361,723
Multiple year pledges for future operations	**10,500**	-
Grants for educational resources	**29,000**	-
Grants received for future equipment purchases	**55,164**	410,000
	$ 490,463	$ 771,723

Note 11. Functional Allocation of Expenses

The Corporation excludes depreciation and amortization from functional expense categories in the consolidated statements of activities for the fiscal years ended June 30, 2011 and 2010. Those expenses would be allocated to the functional areas as follows:

	2011	2010
Program services	**$ 897,300**	$ 1,084,993
Support services	**174,799**	211,362
Fundraising costs	**93,226**	112,727
	$ 1,165,325	$ 1,409,082

Note 12. Allocation of Joint Costs

Joint costs paid by the Corporation to outside firms for program services and activities that included fundraising appeals have been allocated as follows:

	2011	2010
Content services	**$ 140,158**	$ 143,269
Membership development	**560,630**	573,076
	$ 700,788	$ 716,345

Note 13. In-Kind Contributions and Donated Personal Services of Volunteers

The Corporation receives in-kind contributions consisting of donated legal services and donated television tower space. These donations are recorded at their estimated fair value of approximately $117,000 and $141,000 for the years ended June 30, 2011 and 2010, respectively. The amounts are included in unrestricted in-kind contributions and general and administrative and radio and television broadcasting expenses in the consolidated statements of activities.

The Corporation also receives donated personal services of volunteers which approximated $98,000 and $142,000 for the years ended June 30, 2011 and 2010, respectively, and are not reflected in the accompanying consolidated statements of activities because they do not meet the criteria for recognition under accounting standards generally accepted in the United States of America. The estimated fair value of these services is based upon standard valuation rates and job classifications developed by the CPB.

Note 14. Purchase of FCC Broadcast License

In June 2009, the Corporation announced that it was purchasing the non-commercial radio license 91.7 FM to provide a new public radio music station with broadcast coverage throughout greater Dallas, Fort Worth and Denton, Texas.

The Corporation entered into a sales agreement with Covenant Educational Media, Inc. to purchase the license in May 2009. At the signing of an asset purchase agreement, the Corporation deposited $1,000,000 into an escrow account with Wells Fargo for the ultimate consummation of the transaction and incurred transaction costs including legal and financing expenses totaling approximately $124,000. During the year ended June 30, 2010, the Corporation incurred additional transaction costs including legal and financing expenses totaling approximately $126,000. The transaction costs incurred along with the $18.0 million purchase price are included in FCC broadcast license on the consolidated statements of financial position at June 30, 2011 and 2010.

The FCC decision allowing KERA to purchase the license from Covenant Educational Media, Inc. was finalized on September 14, 2009, and the purchase was completed on September 28, 2009. The new station, with call letters KKXT effective October 1, 2009, launched on November 9, 2009.

The purchase of this license was funded through a consortium of lenders including National Cooperative Bank FSB, a federal savings bank; the Public Radio Fund; FJC Corporation; the Marty and Dorothy Silverman Foundation; and the National Enterprises Corporation.

Note 15. Fair Value Measurements

The Corporation records its investments in mutual funds and split-interest agreements at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Corporation utilizes valuation techniques to maximize the use of observable inputs and minimize the use of unobservable inputs. Inputs are broadly defined as assumptions market participants would use in pricing an asset or liability. Assets and liabilities recorded at fair value are categorized within the fair value hierarchy based upon the level of judgment associated with the inputs used to measure their value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described below:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities that the Corporation has the ability to access at the measurement date. The quoted price for these investments is not adjusted, even in situations where the Corporation holds a large position and a sale could reasonably be expected to impact the quoted price. The types of investments included in Level 1 include listed equities and listed derivatives.

Level 2 – Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly, and the fair value is determined through the use of models or other valuation methodologies. Investments that are generally included in this category include corporate bonds and loans, less liquid and restricted equity securities, certain over-the-counter derivatives, and certain general and limited partnership and membership interests in funds that calculate net asset value per share, or its equivalent. A significant adjustment to a Level 2 input could result in the Level 2 measurement becoming a Level 3 measurement.

Level 3 – Inputs that are unobservable for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. The inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimation. Investments that are included in this category generally include equity and debt positions in private companies and certain general and limited partnership interests in corporate private equity and real estate funds, debt funds, hedge funds, and funds of funds.

All transfers between fair value hierarchy levels are recognized by the Corporation at the end of each reporting period.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Corporation's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment.

The Corporation assesses the levels of the investments at each measurement date, and transfers between levels are recognized on the actual date of the event or change in circumstances that caused the transfer in accordance with the Corporation's accounting policy regarding the recognition of transfers between levels of the fair value hierarchy. For the year ended June 30, 2011, there were no transfers among Levels 1, 2 and 3.

The inputs or methodology used for valuing financial instruments are not necessarily an indication of the risks associated with investing in those instruments.

Indicative quotes or evaluations from brokers and pricing services are not necessarily determinative of fair value. The Corporation considers whether the quotes represent an exit price and which level in the hierarchy they fall. In evaluating whether a quote is representative of fair value, the Corporation considers the specific facts and circumstances of the position and quote. This consideration may include factors such as 1) the level of current trading activity, 2) current bid ask spreads relative to previous spreads, 3) dispersion in the quotes received, 4) whether the quotes represent forced transactions, 5) whether the quotes are indicative or binding, 6) whether the quotes vary from recent transaction prices, and 7) whether the quotes are developed by the third party based on relevant observable inputs. The Corporation may challenge the quotes provided if the Corporation does not believe that the quotes represent an appropriate value based on other information such as recent transactions or values from other sources or methods.

On an as needed basis, the Corporation will consider backtesting, or a comparison of quotes obtained to actual transaction data. The Corporation may also consider assessing the valuation methodology used by the third party to develop the quote and assess the observability and significance of the inputs used, on an as needed basis.

Indicative quotes will be considered Level 3 absent evidence to show that the quote represents observable data. For example, evidence to show that the quote is a Level 2 input might include 1) the quote is comparable to a recent transaction, 2) backtesting demonstrates that quotes have historically been close to transactions, or 3) the quote is developed by the third party using observable inputs.

It is important to note that a quote or multiple quotes may still be representative of fair value even if they fall into Level 3 of the fair value hierarchy. Therefore, the Corporation may use a quote or quotes if it determines that they represent fair value if it does not have information to demonstrate that it is a Level 2.

The determination of fair value using these methodologies takes into account consideration of a range of factors, including but not limited to the price at which the investment was acquired, the nature of the investment, local market conditions, trading values on public exchanges for comparable securities, current and projected operating performance and financing transactions subsequent to the acquisition of the investment. These valuation methodologies involve a significant degree of judgment by the Corporation.

Because the Corporation is under no compulsion to dispose of its portfolio investments, the estimated values, as determined above, may not reflect amounts that could be realized upon immediate sale nor amounts that ultimately may be realized. Because of the inherent uncertainty of the valuation, those estimated values may differ significantly from the values that would have been used had a ready market for those securities existed, and the differences could be material.

A description of the valuation techniques applied to the Corporation's major categories of assets measured at fair value on a recurring basis follows.

Mutual funds – Securities traded on a national securities exchange (or reported on the NASDAQ national market) are stated at the last reported sales price on the day of valuation. To the extent these securities are actively traded and valuation adjustments are not applied, they are categorized in Level 1 of the fair value hierarchy.

Split-interest agreements – The Corporation holds a partial interest in two split-interest agreements. Annually, the Corporation receives broker statements from the trustee listing out the current market value of the trusts' assets. The trusts' assets are invested in a variety of investments including securities traded on a national securities exchange, fixed income securities, and other investments. The present value of these split-interest agreements is determined using long-term Treasury bill rates, the life expectancy of the donors and the percent of each trust that was donated to the Corporation.

The following table represents assets reported on the statements of financial position at their fair value as of June 30, 2011 and 2010 by level within the fair value measurement hierarchy:

		Fair Value Measurements at Reporting Date Using		
	Assets Measured at Fair Value June 30	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2011:				
Measured on a recurring basis:				
Assets:				
Mutual funds				
All asset institutional fund	**$ 998,879**	**$ 998,879**	**$ -**	**$ -**
All world ex-US fund	**3,154,361**	**3,154,361**	**-**	**-**
Stock market index institutional fund	**9,344,417**	**9,344,417**	**-**	**-**
Other	**89,607**	**89,607**	**-**	**-**
	13,587,264	**13,587,264**	**-**	**-**
Split-interest agreements	**395,799**	**-**	**-**	**395,799**
June 30, 2010:				
Measured on a recurring basis:				
Assets:				
Mutual funds				
All world ex-US fund	2,400,920	2,400,920	-	-
Stock market index institutional fund	8,261,173	8,261,173	-	-
	10,662,093	10,662,093	-	-
Split-interest agreements	361,723	-	-	361,723

The changes in Level 3 assets measured at fair value on a recurring basis are summarized as follows:

	Auction Rate Securities	Pooled Investment Fund	Split-interest Agreements	Total
Balance, June 30, 2009	$ 987,008	$ 1,633,639	$ 297,130	$ 2,917,777
Change in value of split-interest agreements	-	-	64,593	64,593
Realized gain on investments	246,888	351,980	-	598,868
Investment sales	(1,233,896)	(1,985,619)	-	(3,219,515)
Balance, June 30, 2010	-	-	361,723	361,723
Change in value of split-interest agreements	-	-	34,076	34,076
Balance, June 30, 2011	**$ -**	**$ -**	**$ 395,799**	**$ 395,799**
Net unrealized losses attributable to Level 3 assets held at June 30, 2011	**$ -**	**$ -**	**$ (85,519)**	**$ (85,519)**