

WXXI PUBLIC BROADCASTING COUNCIL

**Financial Statements
as of June 30, 2011
Together with
Independent Auditors' Report**

Bonadio & Co., LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

September 22, 2011

To the Board of Trustees of
WXXI Public Broadcasting Council:

We have audited the accompanying statement of financial position of WXXI Public Broadcasting Council (the Council) (a New York not-for-profit corporation) as of June 30, 2011, and the related statements of activities and change in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Council'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 Council's 2010 financial statements and, in our report dated September 24, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of WXXI Public Broadcasting Council 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2011, on our consideration of the Council's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information in Exhibit I is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

171 Sully's Trail
Pittsford, NY 14534
p (585) 381-1000
f (585) 381-3131

ROCHESTER • BUFFALO
ALBANY • SYRACUSE
PERRY • GENEVA

WXXI PUBLIC BROADCASTING COUNCIL

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2011

(With Comparative Totals for 2010)

	<u>2011</u>	<u>2010</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 309,433	\$ 209,124
Accounts receivable -		
Government	506,304	848,916
Current portion of pledges receivable, net of discount	393,274	-
Other, net	1,444,911	1,321,544
Costs incurred for programs not yet broadcast	191,278	168,077
Current portion of program rights, net of accumulated amortization	588,382	575,632
Prepaid expenses and other current assets	<u>181,328</u>	<u>149,320</u>
Total current assets	<u>3,614,910</u>	<u>3,272,613</u>
OTHER ASSETS:		
Property and equipment, net	7,918,881	7,899,890
Pledges receivable, net of current portion and discount	33,130	-
Program rights, net of current portion and accumulated amortization	193,422	187,180
Split-interest agreements	70,986	60,358
Long-term investments	<u>10,547,941</u>	<u>8,907,033</u>
Total other assets	<u>18,764,360</u>	<u>17,054,461</u>
Total assets	<u>\$ 22,379,270</u>	<u>\$ 20,327,074</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 626,758	\$ 743,221
Current portion of note payable	100,000	100,000
Deferred revenue	189,156	61,844
Current portion of contracts payable and capital lease obligations	<u>104,553</u>	<u>82,719</u>
Total current liabilities	<u>1,020,467</u>	<u>987,784</u>
LONG-TERM LIABILITIES:		
Line-of-credit	2,044,958	1,613,681
Note payable, net of current portion	1,066,667	1,166,667
Split-interest agreements	30,186	32,588
Contracts payable and capital lease obligations, net of current portion	<u>302,247</u>	<u>200,780</u>
Total long-term liabilities	<u>3,444,058</u>	<u>3,013,716</u>
Total liabilities	<u>4,464,525</u>	<u>4,001,500</u>
NET ASSETS:		
Unrestricted	11,885,268	11,255,713
Temporarily restricted	2,094,584	1,402,346
Permanently restricted	<u>3,934,893</u>	<u>3,667,515</u>
Total net assets	<u>17,914,745</u>	<u>16,325,574</u>
Total liabilities and net assets	<u>\$ 22,379,270</u>	<u>\$ 20,327,074</u>

The accompanying notes are an integral part of these statements.

WXXI PUBLIC BROADCASTING COUNCIL

**STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2011**

(With Comparative Totals for 2010)

			<u>Total</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2011</u>	<u>2010</u>
REVENUE:					
Membership income	\$ 3,222,040	\$ -	\$ -	\$ 3,222,040	\$ 3,248,661
Contributions	1,953,715	1,456,819	267,378	3,677,912	2,431,060
Federal government contract	495,897	-	-	495,897	495,897
Corporation for Public Broadcasting grants	1,214,833	86,926	-	1,301,759	2,090,822
New York State Department of Education grants	1,072,607	-	-	1,072,607	1,064,777
Other grants	260,762	-	-	260,762	259,716
In-kind contributions	19,644	-	-	19,644	22,977
Split-interest agreements	-	10,722	-	10,722	5,910
Auction	253,821	-	-	253,821	242,723
Rental and other income	207,005	-	-	207,005	229,048
Investment income used for operations	483,316	-	-	483,316	470,339
Satisfaction of purpose/time restrictions	<u>1,673,572</u>	<u>(1,673,572)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenue	<u>10,857,212</u>	<u>(119,105)</u>	<u>267,378</u>	<u>11,005,485</u>	<u>10,561,930</u>
EXPENSES:					
Program services -					
Programming and production	5,912,494	-	-	5,912,494	5,579,783
Broadcasting	1,817,838	-	-	1,817,838	1,839,487
Program information	<u>375,149</u>	<u>-</u>	<u>-</u>	<u>375,149</u>	<u>354,011</u>
Total program services	<u>8,105,481</u>	<u>-</u>	<u>-</u>	<u>8,105,481</u>	<u>7,773,281</u>
Supporting services -					
Fundraising and development:					
Membership and other development	1,316,507	-	-	1,316,507	1,184,702
Auction	180,919	-	-	180,919	194,363
Underwriting	418,308	-	-	418,308	373,370
Management and general	<u>1,368,822</u>	<u>-</u>	<u>-</u>	<u>1,368,822</u>	<u>1,395,957</u>
Total supporting services	<u>3,284,556</u>	<u>-</u>	<u>-</u>	<u>3,284,556</u>	<u>3,148,392</u>
Total expenses	<u>11,390,037</u>	<u>-</u>	<u>-</u>	<u>11,390,037</u>	<u>10,921,673</u>
INCOME (LOSS) FROM OPERATIONS	<u>(532,825)</u>	<u>(119,105)</u>	<u>267,378</u>	<u>(384,552)</u>	<u>(359,743)</u>
NON-OPERATING REVENUE:					
Capital grants and contributions	-	381,262	-	381,262	400,000
Investment income, net	<u>1,162,380</u>	<u>430,081</u>	<u>-</u>	<u>1,592,461</u>	<u>964,456</u>
Total non-operating revenue	<u>1,162,380</u>	<u>811,343</u>	<u>-</u>	<u>1,973,723</u>	<u>1,364,456</u>
CHANGE IN NET ASSETS	<u>629,555</u>	<u>692,238</u>	<u>267,378</u>	<u>1,589,171</u>	<u>1,004,713</u>
NET ASSETS - beginning of year	<u>11,255,713</u>	<u>1,402,346</u>	<u>3,667,515</u>	<u>16,325,574</u>	<u>15,320,861</u>
NET ASSETS - end of year	<u>\$ 11,885,268</u>	<u>\$ 2,094,584</u>	<u>\$ 3,934,893</u>	<u>\$ 17,914,745</u>	<u>\$ 16,325,574</u>

The accompanying notes are an integral part of these statements.

WXXI PUBLIC BROADCASTING COUNCIL

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2011 (With Comparative Totals for 2010)

	<u>2011</u>	<u>2010</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 1,589,171	\$ 1,004,713
Adjustments to reconcile change in net assets to net cash flow from operating activities:		
Capital grants and contributions	(381,262)	(400,000)
Provision for doubtful accounts	134,953	138,061
Depreciation	1,000,965	1,073,429
Pledge discount	7,208	-
Gain on disposal of property and equipment	(3,511)	-
Split-interest agreements	(13,030)	31,876
Gain on investments, net	(1,830,624)	(1,215,745)
Changes in:		
Accounts and pledges receivable	(230,704)	(541,104)
Costs incurred for programs not yet broadcast	(23,201)	42,099
Prepaid expenses and other current assets	(32,008)	40,567
Accounts payable and accrued expenses	(116,463)	(196,904)
Deferred revenue	<u>127,312</u>	<u>(8,240)</u>
Net cash flow from operating activities	<u>228,806</u>	<u>(31,248)</u>
CASH FLOW FROM INVESTING ACTIVITIES:		
Increase in program rights, net	(18,992)	(23,102)
Purchases of investments, net	189,716	611,848
Purchases of property and equipment	(1,020,046)	(512,835)
Proceeds from the sale of property and equipment	<u>3,601</u>	<u>-</u>
Net cash flow from investing activities	<u>(845,721)</u>	<u>75,911</u>
CASH FLOW FROM FINANCING ACTIVITIES:		
Borrowings (repayments) on lines-of-credit, net	431,277	(409,056)
Repayments on note payable	(100,000)	(100,000)
Increase in contracts payable and capital lease obligations	123,301	81,846
Collection of capital grants and contributions	<u>262,646</u>	<u>400,000</u>
Net cash flow from financing activities	<u>717,224</u>	<u>(27,210)</u>
CHANGE IN CASH AND CASH EQUIVALENTS	100,309	17,453
CASH AND CASH EQUIVALENTS - beginning of year	<u>209,124</u>	<u>191,671</u>
CASH AND CASH EQUIVALENTS - end of year	<u>\$ 309,433</u>	<u>\$ 209,124</u>

The accompanying notes are an integral part of these statements.

WXXI PUBLIC BROADCASTING COUNCIL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

1. THE COUNCIL

WXXI Public Broadcasting Council (the Council) is located in Rochester, New York. It owns and operates three television channels within Monroe County, WXXI-TV/HD (DT 21.1/cable 1011 and 11), PBS World (DT21.2/cable 524), and Create (DT21.3/cable 433). It also operates cable City 12 in partnership with the City of Rochester. The Council's radio services include: WXXI-AM 1370, WXXI-FM 91.5, WXXY-FM 90.3, plus two HD radio channels, and Reachout Radio, a sub-carrier 24-hour radio reading service for those who are print impaired. The Council also manages and operates WRUR-FM 88.5 under a leased management agreement (LMA) with the University of Rochester, along with two radio stations under LMAs with Hobart & William Smith Colleges-WEOS-FM 89.7 in Geneva, New York and WITH-FM 90.1 in Ithaca, New York.

The Council puts the community first with programming that stimulates and expands thought, inspires the spirit, opens cultural horizons, and promotes understanding of diverse community issues. By being Rochester's source for Public Broadcasting Service (PBS) and National Public Radio (NPR) programming, the Council is one of the most accessible and trusted voices in the community.

The Council's Educational Outreach Center delivers educational services to the community to improve learning opportunities for all. The Council's Educational Services include: instructional programming broadcasts and local educational productions for use by families and schools and video on-demand services for schools and families; Ready-To-Learn programming to prepare young children for school success; training for parents, teachers, and childcare providers on using media to improve education; adult literacy services with area agencies to provide GED connections and workforce development programming; and training for adult literacy agencies through the Council's Finger Lakes Regional Adult Education Network.

The Council produces a variety of programming, including *Second Opinion*, a national healthcare TV series; *With Heart & Voice*, a national radio series featuring classical, sacred choral music; *1370 Connection*, a daily talk radio show on AM 1370; *Need to Know Rochester*, a weekly news and public affairs program on WXXI-TV; *Homework Hotline*, a statewide TV program that helps kids with their homework right on the air; and *Assignment: The World*, a current events instructional program used by 4th-8th grade teachers. The Council's Center for Public Affairs (CPA) presents an on-air and on-line news service that provides the community with rich content in local, national, and international news and information. In addition to the CPA, the Council also leads a group of reporters, from five neighboring New York public broadcasting stations, known as *Innovation Trail*. This local journalism center, funded by the Corporation for Public Broadcasting, is dedicated to delivering focused, in-depth news reports on innovative technology and its role in Upstate's economy.

The Council is at the forefront of innovative and accessible technologies and is constantly looking at new, innovative ways to deliver quality educational, cultural, and informational programming to its audiences. Current unique methods of delivery include streaming its radio services over the web, hosting a video player at WXXI.org where users can watch WXXI-produced and PBS-presented programs, and using the Interconnect - a fiber optic interconnection that enables New York State's public broadcasting stations to deliver innovative, live educational, and public service programming to the entire state in the most economical fashion.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Council's financial statements have been prepared in conformity with accounting principles generally accepted in the United States.

Financial Reporting

The assets, liabilities, and activities of the Council are reported in the following net asset classifications:

- **Unrestricted**

Unrestricted net assets include funds available for the Council's operating activities. Unrestricted net assets also include certain amounts designated by the Board of Trustees. The amount designated by the Board of Trustees was \$6,152,358 and \$5,261,602 at June 30, 2011 and 2010, respectively. Board designated invested funds resulted from operating surpluses and funded depreciation in previous years, and it is expected that a portion of the return on these investments will be used to support operations and that a portion of the principal will be available to support special projects as well as for occasional extraordinary needs.

- **Temporarily Restricted**

Temporarily restricted net assets include resources that have been donated subject to time or purpose restrictions, as defined by the donor and also include unrestricted investment earnings on permanently restricted endowment funds not yet appropriated for expenditure by the Board of Trustees. When a donor restriction expires or appropriation is made by the Board of Trustees, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities and Changes in Net Assets as satisfaction of purpose/time restrictions.

- **Permanently Restricted**

Permanently restricted net assets include resources that have been donated with the stipulation that the principal be maintained in perpetuity. Earnings on permanently restricted assets are classified as temporarily restricted until appropriated for expenditure by the Board of Trustees.

Gifts of Long-Lived Assets

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

Cash and Cash Equivalents

The Council maintains its cash and cash equivalents in bank demand deposit and money market accounts. The balances in these accounts may, at times, exceed federally insured limits. The Council has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk with respect to cash and cash equivalents.

The Council considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The carrying amount approximates fair value because of the short maturity of these instruments.

The Council's Board of Trustees has designated \$36,537 and \$37,674 for property and equipment replacement at June 30, 2011 and 2010, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable

Accounts receivable consist primarily of amounts due from grantors and contributions from other organizations, as well as pledges received for operational support. The Council does not charge interest on these accounts and records an allowance for uncollectible amounts based on historical collection experience and a review of specific outstanding balances. Amounts are written-off against the allowance when uncollectibility becomes known.

Pledges Receivable

The Council records pledges receivable and contribution revenue in the year the pledge is received. Pledges are recorded at their estimated net present value, based on anticipated future cash flow, discounted to reflect the time value of money. The difference between the total pledges outstanding and their net present value is recorded as an offset to pledges receivable and will be recognized as contribution revenue over the term of the pledge. Pledges receivable are written off when they are determined to be uncollectible. At June 30, 2011, it was determined that an allowance for uncollectible pledges was not required.

Costs Incurred for Programs Not Yet Broadcast

Costs incurred for programs not yet broadcast are recorded as an asset. Such costs relate to programs produced by the Council that will be broadcast subsequent to June 30, 2011. Programs to be completed and broadcast within one year are classified as current assets whereas programs to be completed and broadcast in more than one year are classified as long-term. At June 30, 2011 and 2010, there were no long-term costs incurred for programs not yet broadcast. As the programs are broadcast, the costs incurred will be included in operating expenses. Program status is evaluated annually. Costs associated with programs not considered to have future benefit are charged to operating expense.

Program Rights

Program rights relate to programs that will be aired in future periods. Program rights purchased by the Council are amortized on an accelerated method over the period of their expected usage.

Property and Equipment

Property and equipment are recorded at cost, if purchased, or fair value at the time of donation. The Council capitalizes additions of property and equipment in excess of \$500 that have a useful life greater than one year. Depreciation is provided using accelerated methods over the assets' estimated useful lives, which range from five to forty years. Impairment losses are recognized when the carrying value of an asset exceeds its fair value.

Split-Interest Agreements

The Council is the beneficiary of various charitable gift annuities. The Council's beneficial interest is measured at the discounted value of its expected future cash flows and is reported as either temporarily or permanently restricted based on the donors' original gift agreement.

Annuities payable relating to the split-interest agreements for which the Council is the trustee is measured at the present value of estimated future annuity payments utilizing estimated mortality rates and discount rates.

Long-Term Investments

The Council invests in various types of investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that these changes could materially affect the amounts reported in the accompanying financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-Term Investments (Continued)

Long-term investments are stated at fair value based on quoted market prices and are maintained to provide for capital replacement and other operating needs as the Board designates. In order to maximize return on all long-term investments, the Board has chosen to invest operating and equipment replacement funds with board-designated funds without distinction. Although returns on these investments are intended for the long-term growth of the account and for the offset of depreciation, actual transfers are only made on an as needed basis as prescribed in the annual budget.

The Council's Board of Trustees has designated investments totaling \$170,000 for property and equipment replacement for both years ending June 30, 2011 and 2010.

Endowment

The Council's endowment consists of individual funds established for a variety of purposes. The Council's endowment includes permanently restricted endowment funds, unappropriated earnings on the Council's permanently restricted endowment funds, and funds designated by the Board of Trustees to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Fair Value Measurement

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. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs 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.

Generally accepted accounting principles establish a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

- Level 1 - Valuations are based on quoted prices in active markets for identical assets or liabilities that the Council has the ability to access. Valuation adjustments are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation does not entail a significant degree of judgment.
- Level 2 - Valuations are based on quoted prices in markets that are not active or for which all significant inputs are observable, directly or indirectly.
- Level 3 - Valuations are based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of observable inputs can vary and is affected by a wide variety of factors. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Revenue

Deferred revenue represents cash received in advance of service provision.

Contracts Payable

Contracts payable represents contracts entered into for program acquisitions.

Advertising

Advertising costs are recognized as expense when incurred. Advertising expense was approximately \$101,000 during both of the years ended June 30, 2011 and 2010, respectively.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Income Taxes

The Council is a not-for-profit corporation exempt from income taxes as an organization qualified under Section 501(c)(3) of the Internal Revenue Code. The Council has also been classified by the Internal Revenue Service as an entity that is not a private foundation.

For tax-exempt entities, their tax-exempt status itself is deemed to be an uncertainty, since events could potentially occur to jeopardize their tax-exempt status. As of June 30, 2011 and 2010, the Council does not have a liability for unrecognized tax benefits. The Council files informational tax returns in the U.S. federal jurisdiction and New York State. The Council is no longer subject to federal and state income tax examinations for years through 2007.

Donated Services

A substantial number of volunteers have donated time in support of the Council's program activities. The value of these services is not reflected in the accompanying financial statements as they do not meet the criteria for recognition under generally accepted accounting principles.

Comparative Information

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 generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Council's financial statements for the year ended June 30, 2010, from which the summarized information was obtained.

Reclassifications

Certain reclassifications have been made to the 2010 financial statement presentation to conform with the current year's format.

3. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets represent the accumulated principal of gifts that have not yet been used in accordance with donor stipulations. These funds were restricted for the following purposes at June 30:

	<u>2011</u>	<u>2010</u>
Future productions	\$ 1,547,879	\$ 1,254,576
Unappropriated endowment earnings	430,081	-
Capital expenditures	75,824	120,000
Split-interest agreements, net of obligations	<u>40,800</u>	<u>27,770</u>
	<u>\$ 2,094,584</u>	<u>\$ 1,402,346</u>

Net assets were released from donor restrictions related to the following purposes during the years ended June 30:

	<u>2011</u>	<u>2010</u>
Productions	\$ 1,289,274	\$ 1,154,964
Capital expenditures	382,649	400,000
Training grants	1,649	-
Split-interest agreements, net of obligations	<u>-</u>	<u>28,947</u>
	<u>\$ 1,673,572</u>	<u>\$ 1,583,911</u>

4. ACCOUNTS RECEIVABLE

Government Receivables

Government receivables consisted of the following at June 30:

	<u>2011</u>	<u>2010</u>
Corporation for Public Broadcasting	\$ 215,003	\$ 598,003
NYS Department of Education and other	149,071	180,519
City of Rochester, New York	56,406	60,394
County of Monroe, New York	10,000	10,000
Federal government	<u>75,824</u>	<u>-</u>
	<u>\$ 506,304</u>	<u>\$ 848,916</u>

4. ACCOUNTS RECEIVABLE (Continued)

Accounts Receivable - Other

Accounts receivable - other consisted of the following at June 30:

	<u>2011</u>	<u>2010</u>
Trade and billed underwriting, net of allowance for doubtful accounts of \$14,041 and \$14,282 in 2011 and 2010, respectively.	\$ 1,160,158	\$ 997,229
Membership pledges, net of allowance for doubtful accounts of \$16,726 and \$25,019 in 2011 and 2010, respectively.	94,780	141,122
Unbilled underwriting commitments.	131,810	129,879
Barter-trade balance, net of allowance for doubtful accounts of \$5,058 and \$4,636 in 2011 and 2010, respectively.	<u>58,163</u>	<u>53,314</u>
	<u>\$ 1,444,911</u>	<u>\$ 1,321,544</u>

The Council engages in an annual fund-raising campaign manifested by offering special programs and on-air and mail fundraising appeals. These appeals encourage supporters, both individuals and organizations, to provide financial contributions to the Council for enhancement of program offerings and other operating expenses. Financial contributions are frequently evidenced by pledges received from responding viewers and listeners.

Contributions and collected pledges are reported as unrestricted membership pledges based on the nature of the campaign and solicitation. Bad debt write-offs for trade receivables amounted to \$9,212 and \$2,000 in 2011 and 2010, respectively. Bad debt write-offs for membership pledges amounted to \$125,741 and \$132,061 in 2011 and 2010, respectively. Campaign pledges written off in 2010 amounted to \$4,000. There were no campaign pledges written off in 2011.

5. PLEDGES RECEIVABLE

Pledges receivable are scheduled for repayment as follows during the years ended June 30:

2012	\$ 393,612
2013	10,000
2014	10,000
2015	10,000
2016	<u>10,000</u>
	433,612
Less: Discount on pledges receivable	(7,208)
Less: Current portion	<u>(393,274)</u>
Long-term portion of pledges receivable, net	<u>\$ 33,130</u>

6. PROGRAM RIGHTS

Program rights consisted of the following at June 30:

	<u>2011</u>	<u>2010</u>
Acquisition costs	\$ 2,179,678	\$ 2,040,711
Current year amortization	<u>(1,397,874)</u>	<u>(1,277,899)</u>
Total program rights	781,804	762,812
Less: Current portion	<u>(588,382)</u>	<u>(575,632)</u>
Long-term portion of program rights	<u>\$ 193,422</u>	<u>\$ 187,180</u>

7. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	<u>2011</u>	<u>2010</u>
Land and land improvements	\$ 745,067	\$ 745,067
Buildings	13,576,455	13,556,074
Transmitter, antennae, and tower	3,042,051	3,537,469
Satellite interconnection system	591,225	588,917
Studio and technical equipment	9,285,201	8,841,709
Furniture and fixtures	741,402	739,965
Computer and related equipment	1,036,059	966,481
Other equipment	466,683	495,067
Construction-in-progress	<u>196,556</u>	<u>72,989</u>
	29,680,699	29,543,738
Less: Accumulated depreciation	<u>(21,761,818)</u>	<u>(21,643,848)</u>
	<u>\$ 7,918,881</u>	<u>\$ 7,899,890</u>

The National Telecommunications and Information Administration (NTIA) has liens against certain property purchased in 2007 with the proceeds from a NTIA grant. The terms of the lien extend ten years and expire in September 2017. Equipment purchased with this grant totaled approximately \$400,000.

Assets Acquired Under Capital Leases

Transmitter, antennae, and tower and computer and related equipment include a transmitter and computer equipment acquired under capital lease obligations with an aggregate cost of \$262,612 and \$133,462 at June 30, 2011 and 2010, respectively. Accumulated amortization on these assets was \$62,650 and \$44,729 at June 30, 2011 and 2010, respectively.

8. INVESTMENTS

The Council's investments consisted of the following at June 30:

	<u>2011</u>	<u>2010</u>
Temporary cash investments	\$ 122,952	\$ 101,755
Government agency mutual funds	2,465,818	1,095,902
Fixed income mutual funds	480,137	1,391,544
Equity mutual funds	<u>7,479,034</u>	<u>6,317,832</u>
	<u>\$ 10,547,941</u>	<u>\$ 8,907,033</u>

The cost of the Council's investments was \$7,865,674 and \$7,734,858 at June 30, 2011 and 2010, respectively.

Investment Income

The Council's total investment return and its classification in the statements of activities and change in net assets for the years ended June 30 was as follows:

	<u>2011</u>	<u>2010</u>
Dividends and interest	\$ 245,153	\$ 219,050
Net realized and unrealized gains	<u>1,830,624</u>	<u>1,207,207</u>
Net investment income	2,075,777	1,426,257
Investment return allocated for operating activities	<u>(483,316)</u>	<u>(470,339)</u>
Non-operating investment income	<u>\$ 1,592,461</u>	<u>\$ 955,918</u>

Spending Policy

The Board of Trustees has authorized a spending policy under which allowable income utilization in support of operations is limited to 5% of the average market values for the last 20 fiscal quarters for both unrestricted long-term funds and the permanently restricted endowment fund. Additional spending from board designated funds for board projects may be made in addition to the 5% utilization.

9. FAIR VALUE

The following are measured at fair value on a recurring basis based on the following inputs at June 30, 2011:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Temporary cash investments	\$ 122,952	\$ -	\$ -	\$ 122,952
Government agency mutual funds	\$ 2,465,818	\$ -	\$ -	\$ 2,465,818
Fixed income mutual funds	\$ 480,137	\$ -	\$ -	\$ 480,137
Equity mutual funds	\$ 7,479,034	\$ -	\$ -	\$ 7,479,034

9. FAIR VALUE (Continued)

The following are measured at fair value on a recurring basis based on the following inputs at June 30, 2010:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Temporary cash investments	\$ 101,755	\$ -	\$ -	\$ 101,755
Government agency mutual funds	\$ 1,095,902	\$ -	\$ -	\$ 1,095,902
Fixed income mutual funds	\$ 1,391,544	\$ -	\$ -	\$ 1,391,544
Equity mutual funds	\$ 6,317,832	\$ -	\$ -	\$ 6,317,832

The following is a reconciliation of the beginning and ending balances of the Council's assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the years ended June 30, 2011 and 2010:

	<u>Split-Interest Agreement Investments</u>
Balance - July 1, 2009	\$ 85,916
Change in value	<u>(25,558)</u>
Balance - June 30, 2010	60,358
Change in value	<u>10,628</u>
Balance - June 30, 2011	<u>\$ 70,986</u>

10. ENDOWMENT

General

In September 2010, New York Not-for-Profit Corporation law was amended to add a new article known as the New York Prudent Management of Institutional Funds Act (NYPMIFA). There were no significant changes to the Council's 2011 financial statements as a result of the implementation of NYPMIFA.

Composition

The Council's endowment consists of donor-restricted permanent endowment funds, earnings on donor-restricted permanent endowment funds and amounts designated by the Board of Trustees for specific program purposes. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The Council's endowment funds are classified as unrestricted, temporarily restricted, and permanently restricted in the accompanying statement of financial position.

The Council's endowment consisted of the following at June 30:

	<u>2011</u>	<u>2010</u>
Board designated	\$ 6,152,358	\$ 5,261,602
Temporarily restricted	430,081	-
Permanently restricted	<u>3,934,893</u>	<u>3,667,515</u>
	<u>\$ 10,517,332</u>	<u>\$ 8,929,117</u>

10. ENDOWMENT (Continued)

Funds with Deficiencies

From time to time, the fair value of assets associated with individual endowment funds may fall below the capital preservation level required by the Council or donors. At June 30, 2010, there was a \$351,086 deficit in the Council's endowment which represents the amounts by which the fair value of certain donor-restricted endowment funds were below the amount required to be retained permanently. This deficiency resulted from unfavorable market fluctuations that occurred shortly after the investment of new restricted contributions. No draws were taken while values were below historical book value. At June 30, 2011, the board designated amounts did not have a deficiency.

Interpretation of Relevant Laws

The Board of Directors of the Council has interpreted NYPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Council in a manner consistent with the standard of prudence prescribed by NYPMIFA.

Return Objectives and Risk Parameters

The Council has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of board-designated funds that the organization must contribute towards the operation of the Council. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed an appropriate market index rate of return while assuming a moderate level of investment risk. The Council expects its endowment funds, over time, to provide an average rate of return of approximately 5% over the rate of inflation. Actual returns in any given period may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Council relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Council targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and Related Investment Objectives

The Council has a policy of appropriating for distribution to support its operations each year amounts not to exceed 5% of its endowment fund's moving 20 quarter market value average. In establishing this policy, the Council considered the long-term expected return on its endowment. This is consistent with the organization's objective to preserve principal, while providing a sustainable source of income for the Council's operation.

New York State law allows the Board of Trustees to expend net appreciation of endowment investments. The Board of Trustees must consider the long and short-term needs of the Council in carrying out its purposes, its present and anticipated financial requirements, expected total return on its investments, price level trends, and general economic conditions when determining the amount to expend. The Council believes that its total return spending policy meets New York State requirements.

10. ENDOWMENT (Continued)

Annual Activity

The Council's endowment net assets experienced the following changes for the years ended June 30, 2011 and 2010:

	<u>Board Designated</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance - July 1, 2009	\$ 4,652,604	\$ -	\$ 3,659,070	\$ 8,311,674
Net investment gain	1,422,998	-	-	1,422,998
Contributions	-	-	8,445	8,445
Appropriation of assets for expenditure	<u>(814,000)</u>	<u>-</u>	<u>-</u>	<u>(814,000)</u>
Balance - June 30, 2010	5,261,602	-	3,667,515	8,929,117
Net investment gain	1,618,756	-	-	1,618,756
Unappropriated earnings on endowment	-	430,081	-	430,081
Contributions	-	-	267,378	267,378
Appropriation of assets for expenditure	<u>(728,000)</u>	<u>-</u>	<u>-</u>	<u>(728,000)</u>
Balance - June 30, 2011	<u>\$ 6,152,358</u>	<u>\$ 430,081</u>	<u>\$ 3,934,893</u>	<u>\$ 10,517,332</u>

11. SPLIT-INTEREST AGREEMENTS

The Council received funds under the terms of charitable gift annuity agreements totaling \$10,722 and \$5,910 in 2011 and 2010, respectively. The fair value of the split-interest agreements is based on the value of the underlying assets, which consisted of temporary cash investments, U.S. government and agency obligations, and equity mutual funds, and were \$70,986 and \$60,358 as of June 30, 2011 and 2010, respectively. Liabilities are recorded at an amount equal to the estimated present value of payments that the Council is required to make to specific beneficiaries under the terms of these arrangements and were \$30,186 and \$32,588 as of June 30, 2011 and 2010, respectively. The expected liability for payments to the annuitants is based on factors established at the time of the gift and is updated annually based on the estimated present value of the liability and the primary beneficiaries' estimated remaining life expectancy.

12. FINANCING ARRANGEMENTS

Line-of-Credit

The Council has a \$3,000,000 revolving line-of-credit with a bank. Amounts borrowed are secured by the Council's long-term investments. This line-of-credit is used for digital conversion and operating purposes. Borrowings on this line-of-credit bear interest at the bank's prime lending rate plus 0.50% (3.75% at June 30, 2011) or 30 day London Interbank Offered Rate (LIBOR) plus 1.75% (2.10% at June 30, 2011) based on the duration of the borrowing. At June 30, 2011 and 2010, there was \$2,044,958 and \$1,613,681, respectively, outstanding on this line-of-credit. At June 30, 2011, the balance outstanding bore interest at 2.10%. The outstanding balance on this line-of-credit is due in full on August 31, 2012.

12. FINANCING ARRANGEMENTS (Continued)

Note Payable

The Council has a credit facility agreement with a bank under which the bank made a \$2,000,000 mortgage loan to the Council. The mortgage loan bears interest at the rate equal to the one-month LIBOR rate plus .65% (1.00% at June 30, 2011). Interest is payable monthly along with principal payments equal to 1/240th of the original principal amount of the loan. All remaining principal and accrued interest under the loan is payable at the end of the ten-year term in February 2013. The mortgage loan is secured by real property, buildings, and improvements in an amount equal to \$2,000,000. The bank holds the mortgage for this property and the bank may record the mortgage upon occurrence of an event of default.

Future minimum principal payments are as follows for the years ending June 30:

2012	\$	100,000
2013		<u>1,066,667</u>
	\$	<u>1,166,667</u>

Financial Covenants

The revolving line-of-credit and credit facility agreement with the bank contain various covenants, including a minimum debt service coverage ratio and a minimum investment balance of \$4,000,000. The Council was in compliance with these covenants at June 30, 2011 and 2010.

Supplemental Cash Flow Information

Interest paid under the terms of all of the Council's financing arrangements during 2011 and 2010 was \$70,067 and \$66,843, respectively.

Capital Lease Obligations

The Council entered into capital lease agreements related to the acquisition of transmitter, computer, and video equipment. The leases require aggregate monthly payments of \$8,172.

The following is a schedule of future minimum lease payments for assets maintained under capital lease, bearing interest at rates ranging from 6.83% to 7.97% and expiring in 2014.

2012	\$	96,585
2013		77,522
2014		<u>36,160</u>
Total minimum lease payments		210,267
Less: Amounts representing interest		<u>(17,553)</u>
Present value of future minimum lease payments	\$	<u>192,714</u>

13. RETIREMENT PLAN

The Council participates in contributory retirement plans administered by the Teachers Insurance Annuity Association of America (TIAA) and College Retirement Equities Fund (CREF) for substantially all employees. The Council's policy is to accrue the costs of these defined contribution benefits as they are incurred. Total expense charged to operations relating to these plans was approximately \$302,000 and \$167,000 for the years ended June 30, 2011 and 2010, respectively.

13. RETIREMENT PLAN (Continued)

The Council amended the plan document and suspended contributions to the plan during the period April 2009 through October 2009.

In 2002 and in subsequent years, the Council established deferred compensation plans in accordance with sections 457(b) and 457(f) of the Internal Revenue Service Code and entered into participation agreements with its president and executive vice president under the terms of the plans. The Council has accrued \$188,681 and \$123,602 at June 30, 2011 and 2010, in connection with these plans, which is included in contracts payable in the accompanying statement of financial position. The amounts accrued through June 30, 2011 are funded with TIAA/CREF. These funds are included in other long-term investments in the accompanying statement of financial position.

14. COMMITMENTS

Leases

The Council leases land for its transmission tower, transmitting equipment, and building space that contains production facilities under the terms of various operating leases. Rent expense under the terms of these lease arrangements was \$58,301 and \$49,430 in 2011 and 2010, respectively.

A summary of minimum rental commitments under the terms of all leases is as follows for the years ending June 30:

2012	\$	22,839
2013		10,660
2014		9,750
2015		4,450
2016		4,450
Thereafter		<u>58,925</u>
	\$	<u>111,074</u>

15. SUBSEQUENT EVENTS

Subsequent events have been evaluated through September 22, 2011, which is the date the financial statements were available to be issued.

WXXI PUBLIC BROADCASTING COUNCIL

**SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2011
(With Comparative Totals for 2010)**

	Program Services			
	Programming and Production	Broadcasting	Program Information	Total Program Services
Salaries and wages	\$ 2,114,595	\$ 582,685	\$ 156,070	\$ 2,853,350
Payroll taxes and employee benefits	552,705	206,454	67,014	826,173
Program acquisition	1,325,827	-	-	1,325,827
Depreciation	402,522	454,066	17,922	874,510
Contract service	424,476	149,487	6,785	580,748
Occupancy	219,359	154,374	20,263	393,996
Program production	271,501	1,004	2,668	275,173
Memberships	303,235	749	964	304,948
Printing and publications	28,024	4,910	35,011	67,945
Premiums	-	-	-	-
Telephone and telecommunications	70,426	97,985	1,948	170,359
Advertising	36,756	-	51,295	88,051
Rental and maintenance of equipment	33,990	105,541	-	139,531
Postage	3,794	28	6,744	10,566
Direct mail	-	-	-	-
Professional services, excluding in-kind contributions	-	-	-	-
Interest	-	50,957	-	50,957
Bank charges	50	-	-	50
Travel	11,182	5,007	47	16,236
Office supplies	13,081	1,196	538	14,815
In-kind contributions	12,000	-	7,394	19,394
Videotape	12,824	147	104	13,075
Shipping	6,873	2,893	12	9,778
Stationwide training	2,905	355	103	3,363
Other	89,570	-	267	89,837
	<u>5,935,695</u>	<u>1,817,838</u>	<u>375,149</u>	<u>8,128,682</u>
 COSTS INCURRED FOR PROGRAMS NOT YET BROADCAST - beginning of year	 168,077	 -	 -	 168,077
 COSTS INCURRED FOR PROGRAMS NOT YET BROADCAST - end of year	 <u>(191,278)</u>	 <u>-</u>	 <u>-</u>	 <u>(191,278)</u>
 Total	 <u>\$ 5,912,494</u>	 <u>\$ 1,817,838</u>	 <u>\$ 375,149</u>	 <u>\$ 8,105,481</u>

Supporting Services				Total Expenses			
Fundraising and Development	Underwriting	Management and General	Total Supporting Services	2011		2010	
				Amount	%	Amount	%
\$ 538,158	\$ 273,289	\$ 774,983	\$ 1,586,430	\$ 4,439,780	38.96	\$ 4,170,090	38.18
124,815	79,913	256,185	460,913	1,287,086	11.30	1,069,695	9.79
-	-	-	-	1,325,827	11.64	1,277,899	11.70
33,781	9,927	82,747	126,455	1,000,965	8.79	1,073,429	9.83
252,304	29,731	69,559	351,594	932,342	8.19	961,859	8.81
38,431	12,835	39,277	90,543	484,539	4.25	477,220	4.37
16,514	-	450	16,964	292,137	2.56	337,145	3.09
4,576	2,129	12,820	19,525	324,473	2.85	309,017	2.83
29,200	5,167	6,800	41,167	109,112	0.96	112,953	1.03
181,933	12	-	181,945	181,945	1.60	181,998	1.67
4,866	1,805	7,776	14,447	184,806	1.62	165,829	1.52
11,980	-	-	11,980	100,031	0.88	101,216	0.93
3,172	-	1,088	4,260	143,791	1.26	89,479	0.82
60,988	606	3,598	65,192	75,758	0.67	80,952	0.74
120,880	-	-	120,880	120,880	1.06	79,847	0.73
-	-	57,636	57,636	57,636	0.51	70,304	0.64
-	-	19,282	19,282	70,239	0.62	66,843	0.61
58,197	1,029	8,343	67,569	67,619	0.59	64,881	0.59
2,140	968	7,578	10,686	26,922	0.24	23,418	0.21
5,704	292	4,131	10,127	24,942	0.22	19,127	0.18
-	-	-	-	19,394	0.17	19,086	0.17
1,009	12	45	1,066	14,141	0.12	12,889	0.12
1,244	-	93	1,337	11,115	0.10	11,701	0.11
391	129	311	831	4,194	0.04	2,684	0.02
7,143	464	16,120	23,727	113,564	1.00	100,013	0.93
1,497,426	418,308	1,368,822	3,284,556	11,413,238	100.20	10,879,574	99.62
-	-	-	-	168,077	1.48	210,176	1.92
-	-	-	-	(191,278)	(1.68)	(168,077)	(1.54)
\$ 1,497,426	\$ 418,308	\$ 1,368,822	\$ 3,284,556	\$ 11,390,037	100.00	\$ 10,921,673	100.00

The accompanying notes are an integral part of this exhibit.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

September 22, 2011

To the Board of Trustees of
WXXI Public Broadcasting Council:

We have audited the financial statements of WXXI Public Broadcasting Council (the Council) (a New York not-for-profit corporation) as of and for the year ended June 30, 2011, and have issued our report thereon dated September 22, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Council's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Council's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

171 Sully's Trail
Pittsford, NY 14534
p (585) 381-1000
f (585) 381-3131

ROCHESTER • BUFFALO
ALBANY • SYRACUSE
PERRY • GENEVA

www.bonadio.com

(Continued)

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Council's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Council's Board of Trustees, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.