



2007 Financial Statements

**As of and for the Year
Ended December 31, 2007
and Independent
Auditors' Report**

The Paley Center for Media

Financial Statements as of and for the
Year Ended December 31, 2007, and
Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees and Members of
The Paley Center for Media
New York, New York

We have audited the accompanying statement of financial position of The Paley Center for Media (the "Paley Center" or the "Company") as of December 31, 2007, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2007, and the results of its activities and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte + Touche LLP

April 29, 2008

THE PALEY CENTER FOR MEDIA

STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2007

ASSETS:

Cash and cash equivalents	\$ 3,144,898
Marketable securities	30,493
Prepaid expenses and other assets	136,837
Pledges and other receivables — net	25,525,751
Restricted cash	3,068,978
Endowment held by William S. Paley Foundation, Inc.	50,617,891
Long-term investments	14,945,108
Collection — net	715,420
Land	12,132,590
Building — net	18,644,825
Leasehold improvements — net	1,720,932
Furniture, fixtures and equipment — net	<u>4,513,275</u>

Total assets \$ 135,196,998

LIABILITIES :

Accounts payable and accrued expenses	\$ 1,883,158
Deferred revenue	237,130
Other liabilities	331,306
Bonds payable	<u>12,600,000</u>

Total liabilities 15,051,594

NET ASSETS:

Unrestricted	29,689,495
Temporarily restricted	25,593,435
Permanently restricted	<u>64,862,474</u>

Total net assets 120,145,404

TOTAL LIABILITIES AND NET ASSETS \$ 135,196,998

See notes to financial statements.

THE PALEY CENTER FOR MEDIA

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2007

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS AND OTHER SUPPORT:				
Annual galas:				
Revenues	\$ 2,777,463	\$ 202,320	\$	\$ 2,979,783
Direct costs of events	<u>789,607</u>	<u> </u>	<u> </u>	<u>789,607</u>
Net support from galas	1,987,856	202,320		2,190,176
Contributions	10,971,354	18,057,627	103,236	29,132,217
Fees	558,696			558,696
Investment income including unrealized gains and losses	1,052,663			1,052,663
Change in fair market value of endowment held by William S. Paley Foundation, Inc.			2,621,318	2,621,318
Change in value of split interest agreements		211,651	39,296	250,947
Other	426,579			426,579
Net assets released from restrictions:				
Satisfaction of program restrictions	2,049,698	(2,049,698)		
Satisfaction of asset acquisition restrictions	34,757	(34,757)		
Expiration of time restrictions	34,663	(34,663)		
Distribution from endowment held by William S. Paley Foundation, Inc.	<u>2,428,067</u>	<u> </u>	<u>(2,428,067)</u>	<u> </u>
Total revenues, gains and other support	<u>19,544,333</u>	<u>16,352,480</u>	<u>335,783</u>	<u>36,232,596</u>
OPERATING EXPENSES:				
Program services	14,567,678			14,567,678
Management and general	3,784,962			3,784,962
Fundraising	<u>2,395,860</u>	<u> </u>	<u> </u>	<u>2,395,860</u>
Total operating expenses	20,748,500			20,748,500
CHANGE IN NET ASSETS	(1,204,167)	16,352,480	335,783	15,484,096
NET ASSETS — Beginning of year	<u>30,893,662</u>	<u>9,240,955</u>	<u>64,526,691</u>	<u>104,661,308</u>
NET ASSETS — End of year	<u>\$ 29,689,495</u>	<u>\$ 25,593,435</u>	<u>\$ 64,862,474</u>	<u>\$ 120,145,404</u>

See notes to financial statements.

THE PALEY CENTER FOR MEDIA

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2007

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets	\$ 15,484,096
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Increase in fair market value of endowment held by William S. Paley Foundation, Inc.	(2,621,318)
Realized and unrealized gains on long-term investments	(198,963)
Change in fair value of split interest agreements	(250,947)
Depreciation and amortization	2,724,100
Writeoff of fixed assets	72,621
Revenue from donated materials and equipment	(21,200)
Decrease in prepaid expenses and other assets	365,442
Increase in pledges and other receivables	(15,035,673)
Decrease in accounts payable and accrued expenses, deferred revenue and other liabilities	<u>(458,585)</u>
Net cash provided by operating activities	<u>59,573</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of fixed assets	(1,603,390)
Proceeds from sales of investments	6,661,052
Purchase of investments	(6,536,022)
Change in restricted cash	<u>(15,050)</u>
Net cash used in investing activities	<u>(1,493,410)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:	
Distribution from endowment held by William S. Paley Foundation, Inc.	<u>2,428,067</u>
Net cash provided by financing activities	<u>2,428,067</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	994,230
CASH AND CASH EQUIVALENTS — Beginning of year	<u>2,150,668</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 3,144,898</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:	
Interest paid	\$ 455,362
Noncash contributions	<u>\$ 21,200</u>

See notes to financial statements.

THE PALEY CENTER FOR MEDIA

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2007

1. DESCRIPTION

The Paley Center for Media (the “Paley Center”), which opened to the public in 1976, seeks to acquire, preserve and make accessible to the general public, scholars and members of the television and radio industry, a representative collection for Media programs, commercials, artifacts and related materials. In September 1991, the Paley Center opened its facility in the William S. Paley Building at 25 West 52 Street, New York City (the “Building”), to the public. In March 1996, the Paley Center opened an additional facility to the public in the Leonard H. Goldenson Building at 465 North Beverly Drive, Beverly Hills, California (the “California Facility”). In 2007, the Paley Center (formerly known as The Museum of Television & Radio) changed its name to The Paley Center for Media.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation—In accordance with Statement of Financial Accounting Standards (“SFAS”) No. 116, *Accounting for Contributions Received and Contributions Made*, contributions, including unconditional promises to give, are recognized as revenue in the period received.

Under the provisions of SFAS No. 117, *Financial Statements of Not-For-Profit Organizations*, net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Paley Center and changes therein are classified and reported as follows:

- ***Unrestricted Net Assets***—These net assets are not subject to donor-imposed stipulations and may be expendable for any purpose in performing the primary objectives of the Paley Center. Donor-restricted contributions that are received and expensed in the same reporting period are considered unrestricted in the accompanying financial statements.
- ***Temporarily Restricted Net Assets***—These net assets are subject to donor-imposed stipulations that may or will be met either by actions of the Paley Center and/or the passage of time. As the restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying financial statements as net assets released from restrictions.
- ***Permanently Restricted Net Assets***—These net assets are subject to donor-imposed stipulations that resources be maintained permanently while permitting the Paley Center to use or expend part or all of the income (or other economic benefits) derived from the donated assets.

Cash and Cash Equivalents—The Paley Center considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents.

Restricted Cash—Restricted cash is held by the trustee for bonds payable (Note 11).

Marketable Securities and Long-term Investments—Marketable securities and long-term investments are stated at fair value. Fair value is based on published market prices. The realized gains and losses are recorded when investments are redeemed. Unrealized gains and losses represent the change in fair value as of the balance sheet date. Interest and dividend income is recorded when earned.

Contributions and Grants—Contributions are recognized as revenue when they are received or unconditionally pledged.

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

The Paley Center offers various membership levels that include invitations to certain events held throughout the membership period. The Paley Center reports the contribution portion of membership fees as unrestricted contributions, but defers the portion of membership fees that are considered an exchange transaction. The deferred exchange fees are amortized over the period that they are earned.

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

Endowment held by the William S. Paley Foundation, Inc. —The William S. Paley Foundation, Inc. (the “Foundation”) holds and invests funds as an endowment for the financial support, expansion and promotion of the Paley Center. In accordance with SFAS No. 136, *Transfer of Assets to a Not-For-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others*, as a specified beneficiary, the Center recognizes its rights to the assets held by the Foundation on the Statement of Financial Position.

Split Interest Agreements—The Paley Center is the beneficiary of split interest agreements related to certain charitable trusts under varying terms and conditions. The assets recorded by the Paley Center under these agreements are recorded at their fair market value. The discount rates and actuarial assumptions used in the present value calculation for future payments are the prevailing rates of interest for similar types of high quality, fixed income investments of similar duration. The 2007 discount rates utilized ranged from 3.25% to 5.75% and the remaining terms of the split interest agreements as of December 31, 2007 range from .4 years to 16.6 years. The fair value of investments of these charitable trusts are \$1,568,460 as of December 31, 2007, which is recorded as pledges and other receivables. The Paley Center received distributions of \$34,663 for the year ended December 31, 2007 and recorded a \$250,947 unrealized gain related to the change in the fair value of such investments.

Depreciation and Amortization—Depreciation and amortization of the Paley Center’s fixed assets, including furnishings, equipment and the Paley Center’s collection, is calculated using the straight-line method with useful lives ranging from 5 to 10 years for fixed assets and 10 to 30 years for the collection. The Building, substantially completed in July 1991, is being depreciated over 40 years. Leasehold improvements related to the California Facility are being amortized over approximately 14 years (the remaining life of the lease at the opening of the facility, in March of 1996).

Impairment of Long-Lived Assets— The Paley Center accounts for impairment of long-lived assets in accordance with SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (“SFAS 144”). The Paley Center evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Upon such an occurrence, recoverability of assets to be held and used is measured by comparing the carrying amount

of an asset to forecasted undiscounted future net cash flows expected to be generated by the asset. If the carrying amount exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

Use of Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that have an effect on the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (“FASB”) issued FASB Interpretation (“FIN”) No. 48, *Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109* (“FIN 48”), which clarifies the accounting for uncertainty in income tax positions (“tax positions”). FIN 48 requires that the Center recognize in its financial statements the impact of a tax position if that tax position is more likely than not of being sustained on audit, based on the technical merits of the tax position. The provisions of FIN 48 are effective as of the beginning of the Paley Center’s 2008 fiscal year, with the cumulative effect of any change in accounting principle recorded as an adjustment to opening retained earnings. The Paley Center is currently assessing the impact of adopting FIN 48, if any, on its financial statements.

In September 2006, FASB issued SFAS No. 157, *Fair Value Measurements* (“SFAS 157”), which defines fair value, establishes a framework for measuring fair value, and expands required disclosures about fair value measurements. The provisions of SFAS 157 are effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB delayed the effective date of SFAS No. 157 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The Paley Center is currently assessing the impact of adopting SFAS 157, if any, on its financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115* (“SFAS 159”). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Paley Center is currently assessing the impact of adopting SFAS 159, if any, on its financial statements.

3. PLEDGES AND OTHER RECEIVABLES—NET

Pledges and other receivables, net are due to be collected at December 31, 2007, as follows:

Within one year	\$ 9,377,659
In one to five years	16,736,805
In more than five years	<u>1,685,760</u>
	27,800,224
Present value discount	<u>(2,274,473)</u>
	<u>\$25,525,751</u>

Pledges and other receivables include \$12,054,979 due from the Foundation. The allowance for doubtful accounts was \$56,642 as of December 31, 2007.

4. COLLECTION—NET

The Paley Center's collection consists of programs, commercials, books, scripts, artifacts and other materials relating to television and radio and other media. The television and radio programs and commercials in the Paley Center's collection have not been assigned a value in the financial statements because there is no clearly measurable basis for an amount to be recorded. The amounts shown in the financial statements for the collection include the payments made for acquiring and transferring television and radio programs and commercials to the Paley Center's tape format and related materials including videotape, audiotape and books or, if donated, the estimated retail value of the material or services at the time of donation, net of accumulated depreciation.

5. PROPERTY, BUILDING AND OTHER FIXED ASSETS

Following is a summary of property, building and other fixed assets as of December 31, 2007:

Collection (see Note 4)	\$ 5,748,290
Land	12,132,590
Building	31,676,421
Leasehold improvements	12,726,403
Furniture, fixtures, and equipment	<u>13,706,494</u>
	75,990,198
Accumulated depreciation	<u>(38,263,156)</u>
	<u>\$ 37,727,042</u>

6. RISK AND UNCERTAINTIES

The Paley Center holds various investments in securities with various investment objectives. Investment securities are exposed to various risks, such as interest rate, market and credit risks. 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 such changes could materially affect the amounts reported in the financial statements.

7. ENDOWMENT HELD BY THE FOUNDATION

The Board of Directors of the Foundation (the "Board") is authorized to distribute from time to time some portion or all of the principal of the endowment if the Board determines in their discretion that such principal distribution shall be necessary or advisable for some current purpose of the Paley Center. Since the inception of the endowment, the Board has not authorized any distribution of endowment principal. As a result, these funds, as well as all earnings and appreciation (depreciation) thereon, are included in permanently restricted net assets until such time that the Board determines otherwise. The Paley Center recognized an unrealized gain of \$2,621,318 during the year ended December 31, 2007 related to the change in fair value of the Foundation's endowment. Distributions to the Paley Center are recorded as a reclassification between permanently restricted and unrestricted net assets. During the year ended December 31, 2007, distributions of \$2,428,067 were made from the Foundation's endowment to unrestricted net assets.

The funds of the Endowment at December 31, 2007, consist of the following:

	Market Value
Cash and cash equivalents	\$ 881,714
Equities	40,786,914
Fixed Income	<u>8,949,263</u>
	<u>\$ 50,617,891</u>

In addition to distributions from the endowment held for the Paley Center, the Foundation also provided \$6,837,773 to the Paley Center, which is included in contributions in the statement of activities.

8. LONG-TERM INVESTMENTS

At December 31, 2007, long-term investments consisted of the following:

	Market Value
Cash and money market funds	\$ 155,259
U.S. equities	4,022,214
U.S. equity mutual funds	4,099,568
International equity mutual funds	3,780,894
U.S. government bond funds	<u>2,887,173</u>
	<u>\$ 14,945,108</u>

Long-term investments include \$14,443,326 of endowment funds at December 31, 2007. The contributed value of these funds amounted to \$13,272,148 at December 31, 2007, which is permanently restricted as to principal.

9. DEFERRED REVENUE

Deferred revenue consists primarily of the portion of membership fees that are considered an exchange transaction. These fees are deferred over the period of membership, typically 10 months to 1 year.

10. BANK LOAN PAYABLE

As of June 29, 2001, the Paley Center entered into an agreement with KBC Bank NV (“KBC”) for a 364-day revolving credit facility in the aggregate principal amount of \$2,000,000, which amount was increased to \$3,000,000 in 2003. The Facility bears interest at 1) the higher of Prime or Federal Fund Rate plus 0.5 percent for Base Rate Loans (7.25% at December 31, 2007) or 2) London Inter-Bank Offering Rate plus 1.0 percent for LIBOR Loans (5.6% to 5.7% at December 31, 2007) at the election of the Paley Center at the time borrowing. The Facility has been extended annually and has a scheduled maturity of June 23, 2008. At December 31, 2007, there was no outstanding balance due.

During 2007, there were no borrowings from the revolving credit facility. There is a daily commitment fee of 0.2% on any unused portion of the commitment payable quarterly.

The agreement with KBC contain certain covenants. As of December 31, 2007, the Paley Center is in compliance with all such covenants.

11. BONDS PAYABLE

On June 14, 1989, The Trust for Cultural Resources of The City of New York (the “Trust”) issued \$27,000,000 of revenue bonds, due May 1, 2014, on behalf of the Paley Center. Pursuant to a Loan

Agreement between the Trust and the Paley Center, the proceeds of the bond issue were lent to the Paley Center to pay a portion of the construction and related costs of the Paley Center's New York Building. The bonds are secured by payments on pledges to the Paley Center's Capital Campaign, by a letter of credit issued by KBC and by a first mortgage on the Building. The letter of credit from KBC expires in September 2009. Payments on pledges are deposited into a restricted account and used to pay interest and related financing costs and for mandatory paydown of bonds on May 1 each year. The requirement for such mandatory paydowns has been fulfilled through May 1, 2008. At December 31, 2007, the interest rate was 3.35%. During 2007, the interest rate ranged from 3.05% to 3.90%.

As of December 31, 2007, the repayment schedule for the bond is as follows:

2008	\$ -
2009	1,600,000
2010	1,900,000
2011	2,000,000
2012	2,200,000
Thereafter	<u>4,900,000</u>
Total	<u>\$ 12,600,000</u>

Interest expense for the bonds payable was \$456,467 for the year ended December 31, 2007 and bond administration costs were \$168,246 included in Management and General expenses.

12. TAX STATUS

The Paley Center is a nonprofit organization exempt from income taxes in accordance with Section 501(c)(3) of the U.S. Internal Revenue Code (the "Code"). Donors may deduct contributions to the Paley Center as provided in Section 170 of the Code.

13. PROFIT SHARING PLAN

Effective January 1, 1994, the Paley Center adopted a profit-sharing plan (the "Plan") to provide retirement benefits for its employees. The Plan is a noncontributory, defined contribution plan available to all employees after one year with 1,000 hours of service. After three years of service in the Plan, an employee becomes 100% vested. Costs of the Plan are funded as incurred. Costs for 2007 amounted to \$218,872.

14. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

- a. The carrying amounts of cash and cash equivalents, restricted cash, marketable securities, pledges and other receivables, accounts payable and accrued expenses, deferred revenue and other liabilities approximate fair value because of the short maturity of those instruments.
- b. Long-term investments are carried at prevailing market value.
- c. The carrying amount of the Paley Center's bonds payable approximates fair value as the borrowing rate of interest is adjusted weekly to reflect prevailing market conditions.

15. IN-KIND INCOME

During the year ended December 31, 2007, the Paley Center received approximately \$336,179 of in-kind income. The in-kind income consisted primarily of business and professional services and equipment. These amounts have been recorded based upon the fair value of the equipment and services as reported to the Paley Center by the donors and are included in financial statements as Unrestricted Contributions.

16. COMMITMENTS AND CONTINGENCIES

The Paley Center has been named as a codefendant with its general contractor in a lawsuit arising from the construction of the Paley Center’s New York Building. According to its agreement with the contractor, the Paley Center is indemnified against losses from such lawsuits. Therefore, in the opinion of management, the resolution of the lawsuit will not have a material adverse impact on the Paley Center’s financial position.

On November 1, 1994, the Paley Center entered into a lease for the premises on which the California Facility has been constructed. The lease term is 15 years with options to extend until February 28, 2024. Rent expense related to this lease was \$499,020 for 2007. Minimum lease payments under this operating lease are as follows:

2008	\$ 666,946
2009	<u>579,230</u>
	<u>\$ 1,246,176</u>

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