



# **2008 Financial Statements**

**As of and for the Year  
Ended December 31, 2008  
and Independent  
Auditors' Report**

# The Paley Center for Media

Financial Statements as of and for the  
Year Ended December 31, 2008, and  
Independent Auditors' Report



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## 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, 2008, 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, 2008, 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 30, 2009

# THE PALEY CENTER FOR MEDIA

## STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2008

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ASSETS:	
Cash and cash equivalents	\$ 2,658,913
Marketable securities	35,433
Prepaid expenses and other assets	222,220
Pledges and other receivables — net	18,133,599
Endowment held by William S. Paley Foundation, Inc.	36,897,399
Long-term investments	10,394,211
Collection — net	572,008
Land	12,132,590
Building — net	18,802,141
Leasehold improvements — net	870,935
Furniture, fixtures, and equipment — net	<u>4,927,437</u>
 TOTAL	 <u>\$ 105,646,886</u>
LIABILITIES :	
Accounts payable and accrued expenses	\$ 1,419,642
Deferred revenue	214,438
Other liabilities	<u>163,380</u>
 Total liabilities	 <u>1,797,460</u>
NET ASSETS:	
Unrestricted	39,878,703
Temporarily restricted	16,468,353
Permanently restricted	<u>47,502,370</u>
 Total net assets	 <u>103,849,426</u>
 TOTAL	 <u>\$ 105,646,886</u>

See notes to financial statements.

# THE PALEY CENTER FOR MEDIA

## STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS, AND OTHER SUPPORT:				
Annual galas:				
Revenues	\$ 1,820,310	\$ 97,190	\$	\$ 1,917,500
Direct costs of events	<u>697,777</u>	<u></u>	<u></u>	<u>697,777</u>
Net support from galas	1,122,533	97,190		1,219,723
Contributions	13,604,863	4,935,575	102,305	18,642,743
Fees	977,899			977,899
Investment income including unrealized gains and losses	(1,230,909)		(3,161,831)	(4,392,740)
Change in fair market value of endowment held by William S. Paley Foundation, Inc.			(11,620,492)	(11,620,492)
Change in value of split interest agreements		(2,366)	(405,086)	(407,452)
Other	568,778			568,778
Transfer of investment income to unrestricted assets	175,000		(175,000)	
Net assets released from restrictions:				
Satisfaction of program restrictions	6,424,904	(6,424,904)		
Satisfaction of asset acquisition restrictions	2,311,816	(2,311,816)		
Expiration of time restrictions	5,418,761	(5,418,761)		
Distribution from endowment held by William S. Paley Foundation, Inc.	<u>2,100,000</u>	<u></u>	<u>(2,100,000)</u>	<u></u>
Total revenues, gains, and other support	<u>31,473,645</u>	<u>(9,125,082)</u>	<u>(17,360,104)</u>	<u>4,988,459</u>
OPERATING EXPENSES:				
Program services	14,937,137			14,937,137
Management and general	3,559,998			3,559,998
Fundraising	<u>2,787,302</u>	<u></u>	<u></u>	<u>2,787,302</u>
Total operating expenses	21,284,437			21,284,437
CHANGE IN NET ASSETS	10,189,208	(9,125,082)	(17,360,104)	(16,295,978)
NET ASSETS — Beginning of year	<u>29,689,495</u>	<u>25,593,435</u>	<u>64,862,474</u>	<u>120,145,404</u>
NET ASSETS — End of year	<u>\$ 39,878,703</u>	<u>\$ 16,468,353</u>	<u>\$ 47,502,370</u>	<u>\$ 103,849,426</u>

See notes to financial statements.

# THE PALEY CENTER FOR MEDIA

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2008

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### CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets	\$ (16,295,978)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Decrease in fair market value of endowment held by William S. Paley Foundation, Inc.	11,620,492
Realized and unrealized gains on long-term investments	4,816,834
Change in fair value of split interest agreements	407,452
Depreciation and amortization	2,901,355
Increase in prepaid expenses and other assets	(85,383)
Decrease in pledges and other receivables	6,984,700
Decrease in accounts payable and accrued expenses, deferred revenue and other liabilities	<u>(654,134)</u>
Net cash provided by operating activities	<u>9,695,338</u>

### CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of fixed assets	(2,479,424)
Proceeds from sales of investments	1,855,580
Purchase of investments	(2,126,457)
Change in restricted cash	<u>3,068,978</u>
Net cash provided by investing activities	<u>318,677</u>

### CASH FLOWS FROM FINANCING ACTIVITIES:

Distribution from endowment held by William S. Paley Foundation, Inc.	2,100,000
Repayments of bonds	<u>(12,600,000)</u>
Net cash used in financing activities	<u>(10,500,000)</u>

NET DECREASE IN CASH AND CASH EQUIVALENTS (485,985)

CASH AND CASH EQUIVALENTS — Beginning of year 3,144,898

CASH AND CASH EQUIVALENTS — End of year \$ 2,658,913

### SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Interest paid \$ 272,783

See notes to financial statements.

# THE PALEY CENTER FOR MEDIA

## NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2008

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### 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** — In the prior year, restricted cash was held by the trustee for bonds payable. Such bonds payable were redeemed in 2008 (Note 12).

**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. There were no contributions of equipment or other long-lived assets for the year ended December 31, 2008.

**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 Paley 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 2008 discount rates utilized ranged from 0.25% to 4.35% and the remaining terms of the split interest agreements as of December 31, 2008, range from 0.3 years to 15.6 years. The fair value of investments of these charitable trusts are \$3,775,435 as of December 31, 2008, which is recorded as pledges and other receivables. The Paley Center received distributions of \$187,298 for the year ended December 31, 2008, which was recorded in unrestricted contributions, and recorded a \$407,452 unrealized loss 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 Paley 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. In accordance with FASB Staff Position (“FSP”) FIN 48-3, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises*, the Company has elected to defer FIN 48 until 2009. The Paley Center is currently assessing the impact of adopting FIN 48, 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 adopted SFAS 159 on January 1, 2008 and did not elect the fair value option provisions for any of its financial assets and financial liabilities. However, consistent with SFAS No. 124, *Accounting for Certain Investments held by Not-for-Profit Organizations*, the Paley Center measures its investments in equity securities with readily determinable fair values and investment in debt securities at fair value in the statement of financial position.

On January 1, 2008, the Paley Center adopted the provisions of SFAS No. 157, *Fair Value Measurements*, (“SFAS 157”) for financial instruments and liabilities (Note 15). In February 2008, the FASB issued FASB Staff Position (“FSP”) FAS 157-2, *Effective Date of FASB Statement No. 157* (“FSP 157-2”), which delays the effective date of SFAS No. 157 for one year for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. The Paley Center elected a partial deferral of SFAS 157 under the provisions of FSP 157-2 related to the measurement of fair value used when evaluating goodwill and other intangible assets for impairment. The Paley Center is currently evaluating the impact this FSP will have on its financial statements.

In August 2008, the FASB issued FSP FAS 117-1, *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* (“FSP 117-1”). FSP 117-1 requires an organization subject to an enacted version of the 2006 Uniform Prudent Management of Institutional Funds Act (UPMIFA) to classify a portion of a perpetual donor-restricted endowment fund as permanently restricted net assets (UPMIFA is not applicable to the state of New York not-for-profits

as of December 31, 2008). FSP 117-1 also requires all not-for-profit organizations with donor-restricted or board-restricted endowment funds to make extensive new disclosures about such funds regardless of whether an organization is subject to an enacted version of UPMIFA. The Paley Center adopted FSP 117-1 during fiscal year 2008 (Note 9).

### 3. PLEDGES AND OTHER RECEIVABLES — NET

Pledges and other receivables, net are due to be collected at December 31, 2008, as follows:

Within one year	\$ 10,043,519
In one to five years	5,625,641
In more than five years	<u>3,754,243</u>
	19,423,403
Present value discount	<u>(1,289,804)</u>
	<u>\$ 18,133,599</u>

Pledges and other receivables include \$3,686,889 due from the Foundation. The allowance for doubtful accounts was \$3,375 as of December 31, 2008.

### 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

Property, building, and other fixed assets as of December 31, 2008, are as follows:

Collection (see Note 4)	\$ 5,167,036
Land	12,132,590
Building	32,626,006
Leasehold improvements	12,810,702
Furniture, fixtures, and equipment	<u>11,691,826</u>
	74,428,160
Accumulated depreciation and amortization	<u>(37,123,049)</u>
	<u>\$ 37,305,111</u>

The Paley Center retired \$4,041,462 of fully depreciated fixed assets during 2008.

## 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 loss of \$11,620,492 during the year ended December 31, 2008, 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, 2008, distributions of \$2,100,000 were made from the Foundation's endowment to unrestricted net assets.

The funds of the Endowment at December 31, 2008, consist of the following:

	<b>Market Value</b>
Cash and cash equivalents	\$ 3,586,341
Equities	24,882,676
Fixed income	<u>8,428,382</u>
	<u>\$36,897,399</u>

In addition to distributions from the endowment held for the Paley Center, the Foundation also provided \$5,283,033 to the Paley Center. Of this amount \$4,460,410 is included in unrestricted contributions and \$822,623 is included in temporarily restricted contributions in the statement of activities.

## 8. LONG-TERM INVESTMENTS

At December 31, 2008, long-term investments consisted of the following:

	<b>Market Value</b>
Cash and money market funds	\$ 393,283
U.S. equities	2,164,432
U.S. equity mutual funds	2,046,080
International equities	128,805
International equity mutual funds	2,120,394
U.S. government bond funds	<u>3,541,217</u>
	<u>\$ 10,394,211</u>

Long-term investments include \$10,085,317 of endowment funds at December 31, 2008. The contributed value of these funds amounted to \$13,422,148 at December 31, 2008, which is permanently restricted as to principal.

## 9. ENDOWMENT

The endowments consist of donor-restricted endowment funds and an endowment held by the Foundation. Net assets associated with endowments are classified as permanently restricted assets based on the existence of donor-imposed restrictions.

The Finance Committee of the Board of Trustees of the Paley Center is responsible for the long-term investments policies for donor-restricted endowment funds. The Board of Trustees has established a policy whereby 5% of average market value of donor restricted endowment funds is to be distributed each year to fund operations. However, no such distribution shall be made to the extent it would reduce the value below the endowed corpus. The Board of Directors of the Foundation is responsible for the investment policies of the endowment held by the Foundation.

The market value of assets associated with donor restricted endowment funds may fall below the level of the donor require to retain funds of perpetual duration. At December 31, 2008, these deficiencies totaled \$3,161,831 and were reported as a reduction permanently restricted assets. These deficiencies resulted from extraordinary market conditions in 2008.

	<b>Permanently Restricted Assets</b>
Endowment net assets, beginning of the year	<u>\$ 64,862,474</u>
Investment return	
Investment income	329,963
Net depreciation (realized and unrealized)	<u>(3,491,794)</u>
Total investment return	<u>(3,161,831)</u>
Contributions	102,305
Transfer to unrestricted assets	(175,000)
Other changes:	
Change in value of split interest agreement	(405,086)
Change in fair market value of endowment held by Foundation	(11,620,492)
Distribution from endowment held by Foundation	<u>(2,100,000)</u>
Endowment net assets, end of the year	<u><u>\$47,502,370</u></u>

#### **10. 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.

#### **11. 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% for Base Rate Loans (3.25% at December 31, 2008) or 2) London Inter-Bank Offering Rate plus 1.0% for LIBOR Loans (1.69% to 3.0% at December 31, 2008) at the election of the Paley Center at the time borrowing. The Facility has been extended annually and has a scheduled maturity of June 21, 2009. At December 31, 2008, there was no outstanding balance due. The Paley Center is currently in discussion with several banks to secure a new line of credit.

During 2008, there were no borrowings from the revolving credit facility. There is a daily commitment fee of 0.2% to 0.3% on any unused portion of the commitment payable quarterly.

The agreement with KBC contains certain covenants. As of December 31, 2008, the Paley Center is in compliance with all such covenants.

#### **12. 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 were 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 remaining \$12,600,000 of outstanding bonds were redeemed on November 3, 2008 and the letter of credit was terminated.

During 2008, the interest rate ranged from 1.00% to 7.90%. Interest expense for the bonds payable was \$237,268 and bond administration costs were \$151,471, for the year ended December 31, 2008, which were included in management and general expenses on the statement of activities.

### **13. TAX STATUS**

The Internal Revenue Service (“IRS”) has ruled that the Paley Center qualifies as a Section 501(c)(3) organization, exempt from federal income tax under Section 501(a) of the IRC. The IRS has also determined that the Paley Center is a publicly supported organization under Sections 509(a)(1) and 170(b)(1)(A)(vi) of the Internal Revenue Code (“IRC”). Management is not aware of any course of action or series of events that have occurred that might adversely affect the Paley Center’s qualified status. The Paley Center is subject to unrelated business taxes under Section 511 of the IRC on income that is unrelated to its primary exempt purposes. For the year ended December 31, 2008, the Paley Center has no material tax liability for unrelated business income.

### **14. 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 2008 amounted to \$246,436.

### **15. 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, 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.

As discussed in Note 2, the Paley Center adopted the provisions of SFAS No. 157, for financial assets and liabilities, on January 1, 2008. The fair value framework requires the categorization of assets and liabilities into three levels based upon the assumptions (inputs) used to price the assets or liabilities:

*Level One*—Valuations based on quoted prices in active markets for identical assets or liabilities that the Enterprise has the ability to access.

*Level Two*—Valuations based on one or more quoted prices in active markets that are not active or for which all significant inputs are observable, either directly or indirectly.

*Level Three*—Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

All of the Paley Center’s long-term investments, marketable securities, and the endowment held by the Foundation are valued based on level one inputs.

**16. IN-KIND INCOME**

During the year ended December 31, 2008, the Paley Center received approximately \$509,835 of in-kind income. The in-kind income consisted primarily of business and professional services. These amounts have been recorded based upon the fair value of the services as reported to the Paley Center by the donors and are included in financial statements as unrestricted contributions.

**17. 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 2008. On July 30, 2008, the Paley Center entered into an amendment to the lease extending the term until February 28, 2024. Minimum lease payments under the Paley Center’s operating lease are as follows:

2009	\$ 739,930
2010	965,600
2011	999,396
2012	1,034,375
2013	1,070,578
Thereafter	<u>14,293,905</u>
	<u>\$ 19,103,784</u>

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