NASHVILLE PUBLIC TELEVISION, INCORPORATED

FINANCIAL STATEMENTS

JUNE 30, 2005 AND 2004

NASHVILLE PUBLIC TELEVISION, INCORPORATED

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CROSSLIN VADEN & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

To the Board of Directors
Nashville Public Television, Incorporated
Nashville, Tennessee

We have audited the statements of financial position of Nashville Public Television, Incorporated (NPT) as of June 30, 2005 and 2004, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of NPT's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 audits provide 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 Nashville Public Television, Incorporated at June 30, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Crosslin, Vaden & Associates, P.C.

September 30, 2005
Nashville, Tennessee

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NASHVILLE PUBLIC TELEVISION, INCORPORATED
STATEMENTS OF FINANCIAL POSITION

	June 30, 2005	June 30, 2004
ASSETS		
Current assets:		
Cash and cash equivalents	$1,338,325	$1,587,017
Investments	350,671	343,707
Accounts receivable, net of allowance for doubtful accounts of $15,000 and $6,600 as of June 30, 2005 and 2004, respectively	242,238	310,643
Prepaid expenses	16,157	11,949
Total current assets	1,947,391	2,253,316
Beneficial interest in trusts (Note B)	54,797	52,312
Property, plant and equipment, net (Note C)	3,208,754	3,627,621
Film and program costs (Note D)	43,000	301,254
Intangible assets, net	17,374	19,111
Long-term investments	44,596	38,596
Total assets	$5,315,912	$6,292,210
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	$ 262,436	$ 366,909
Deferred revenue	9,245	11,200
Total current liabilities	271,681	378,109
Net assets:		
Unrestricted:		
Undesignated	4,932,434	5,824,789
Board designated	28,485	25,000
Total unrestricted	4,960,919	5,849,789
Temporarily restricted (Note J)	31,000	12,000
Permanently restricted (Note J)	52,312	52,312
Total net assets	5,044,231	5,914,101
Total liabilities and net assets	$5,315,912	$6,292,210

See accompanying notes to financial statements.

NASHVILLE PUBLIC TELEVISION, INCORPORATED
STATEMENTS OF ACTIVITIES

	Years Ended June 30, 2005	Years Ended June 30, 2004
Changes in unrestricted net assets:		
Operating revenue:		
Contributions	$ 2,948,455	$ 2,972,338
Contributions from state and local governmental units	430,797	453,470
Contributions from the Corporation for Public Broadcasting	919,645	847,714
Sale of services, guides, and films	588,868	450,302
Loss on sale of art equipment	-	(556)
In-kind donations (Note E)	281,500	288,767
Gain on investments	2,197	-
Gain on beneficial interests	2,485	-
Net assets released from restrictions	6,000	1,087,100
Total operating revenue	5,179,947	6,099,135
Operating expenses:		
Program services:		
Programming and production	3,228,111	3,466,411
Broadcasting	963,204	907,468
Program information	315,417	410,723
Total program services	4,506,732	4,784,602
Supporting services:		
Development and fund raising	961,925	923,794
Administration	600,160	546,420
Total supporting services	1,562,085	1,470,214
Total operating expenses	6,068,817	6,254,816
Net decrease in unrestricted net assets from operating activities	(888,870)	(155,681)
Nonoperating:		
Net assets released from restrictions for capital equipment	-	148,683
Increase in unrestricted net assets from nonoperating activities	-	148,683
Net decrease in unrestricted net assets	(888,870)	(6,998)

See accompanying notes to financial statements.

NASHVILLE PUBLIC TELEVISION, INCORPORATED
STATEMENTS OF ACTIVITIES - Continued

	Years Ended June 30,	
	2005	2004
Change in temporarily restricted net assets:		
Grants	25,000	40,966
Net assets released from restrictions	(6,000)	(1,235,783)
Net increase (decrease) in temporarily restricted net assets	19,000	(1,194,817)
Change in permanently restricted net assets:		
Contributions	-	52,312
Net increase in permanently restricted net assets	-	52,312
Net decrease in net assets	(869,870)	(1,149,503)
Net assets at beginning of year	5,914,101	7,063,604
Net assets at end of year	$ 5,044,231	$ 5,914,101

See accompanying notes to financial statements.

NASHVILLE PUBLIC TELEVISION, INCORPORATED
STATEMENTS OF CASH FLOWS

	Years Ended June 30, 2005	Years Ended June 30, 2004
Operating activities:		
Net decrease in net assets	$(869,870)	$(1,149,503)
Adjustments to reconcile decrease in net assets to net cash (used in) provided by operating activities:		
Depreciation	450,648	449,096
Gain on beneficial interest in trusts	(2,485)	-
Gain on investments	(2,197)	-
Amortization of film and program costs	330,156	340,609
Contributions of investments	-	(52,312)
Amortization of intangible assets	1,737	1,738
Loss on sale of artwork	-	556
Changes in assets and liabilities:		
Decrease in receivables, net	68,405	70,935
Decrease in receivable from the Metropolitan Government of Nashville and Davidson County	-	1,081,100
Increase in film and program costs	(71,902)	(468,485)
(Increase) decrease in prepaid expenses	(4,208)	1,018
(Decrease) increase in accounts payable and accrued liabilities	(104,473)	96,361
Decrease in deferred revenue	(1,955)	11,200
Net cash (used in) provided by operating activities	(206,144)	382,313
Cash flows used in investing activities:		
Purchases of equipment	(31,781)	(575,765)
Purchases of investments	(10,767)	(37,157)
Net cash used in investing activities	(42,548)	(612,922)
Net decrease in cash and cash equivalents	(248,692)	(230,609)
Cash and cash equivalents at beginning of year	1,587,017	1,817,626
Cash and cash equivalents at end of year	$ 1,338,325	$ 1,587,017

See accompanying notes to financial statements.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Nashville Public Television, Incorporated (NPT or the Station), a community nonprofit corporation, was incorporated on May 13, 1998 for the purpose of promoting public broadcasting and telecommunications. The Station is the FCC Licensee for WNPT, the public television station in Nashville, Tennessee.

Transfer of Net Assets from WDCN - Channel 8 and Resulting Governmental Appropriations

As a result of a Statement of Understanding and Purpose entered into between the Metropolitan Board of Public Education of the Metropolitan Government of Nashville and Davidson County (MBPE) and the Nashville Public Television Council (NPTC), ownership and operational control of WDCN - Channel 8 was transferred to WDCN Public Television Corporation as of June 30, 1999. The assets and liabilities were transferred at the carrying value as reflected in the accounts of WDCN - Channel 8. The Station changed its legal name from WDCN Public Television Corporation to Nashville Public Television, Incorporated in January 2001. MBPE retains a perpetual right of first refusal in acquiring any broadcast-related assets that MBPE may be eligible to acquire, at such time as NPT might seek disposal.

As a result of the transfer, Nashville Public Television, Incorporated received funding from MBPE through June 30, 2004. As of June 30, 2004, Nashville Public Television, Incorporated is expected to fully fund its operations from other sources. NPT received $1,081,100 from MBPE during fiscal 2004 to support operations at NPT.

Accrual Basis and Financial Statement Presentation

The financial statements of the Station have been prepared on the accrual basis of accounting.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Contributions, which include unconditional promises to give (pledges), are recognized as revenue in the period in which collection is determined to be probable. Substantially all pledges are received within one year. The station classifies its support, revenues, expenses, gains and losses into three classes of net assets based on the existence or absence of donor-imposed restrictions. Net assets of the Station and changes therein are classified as follows:

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

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

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

The amount for each of these classes of net assets is displayed in the statements of financial position and the amount of change in each class of net assets is displayed in the statements of activities.

Use of Estimates in the Preparation of Financial Statements

Management of the Station has made certain estimates and assumptions related to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Management believes that such estimates have been based on reasonable assumptions and that such estimates are adequate. Actual results could differ from those estimates.

Comparative Financial Statements

The financial information shown for fiscal year 2004 in the accompanying statement of financial position, statement of activities, and statement of cash flows is included to provide a basis for comparison with fiscal year 2005. Certain reclassifications have been made to the financial statements for fiscal year 2004 to conform to the presentation adopted for fiscal year 2005.

Cash and Cash Equivalents

The Station considers all highly liquid debt instruments with a maturity of three months or less when purchased to be cash equivalents.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Investments

Current investments consist of a certificate of deposit which matures April 12, 2006. Long-term investments consist of an equity interest in a joint venture created for the purpose of exploring new initiatives in digital television, which is accounted for on the cost basis since the Station's ownership interest in the joint venture is less than 10%.

Deferred Program Costs

Costs incurred to purchase or produce programs not yet broadcast which will not generate revenues through sale or distribution of broadcast rights are deferred and amortized over the life of the program. Grants related to the production of programs not yet broadcast are included in temporarily restricted net assets.

Film and Program Costs

Costs incurred to purchase or produce films and programs, which will generate revenues through sale or distribution of the broadcast rights, are deferred. The Station amortizes these costs of production of films and programs using the individual-film-forecast method under which the costs are amortized in the ratio that revenue earned for the specific title in the current period bears to management's estimate of the total revenues to be realized from all media and markets for the specific title. All exploitation costs, including advertising and marketing costs, are expensed as incurred. Estimates of total gross revenues can change due to a variety of factors, including the level of market acceptance of the production.

Property, Plant, and Equipment

The majority of equipment utilized by the Station was transferred to the Station by WDCN - Channel 8, at cost. These assets are being depreciated on a straight-line basis over their estimated useful lives which range from three to ten years. Costs of maintenance and repairs are charged to expense as incurred.

Intangible Assets

The Station owns the rights to the call letters WNPT. The purchase of the rights to the call letters and any related name registrations occurred effective July 2000 and has been capitalized at cost ($26,055). The copyrights are being amortized over a period of 15 years ($1,738 per year) using the straight-line method.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Impairment of Long-Lived Assets

Long-lived assets and certain identifiable intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value. Assets to be disposed of are reported at the lower of the carrying amount or fair value less the costs to sell. The Station had no impairments of long-lived assets during 2005 or 2004.

Income Taxes

The Station is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code; and accordingly no provision for income taxes is included in the accompanying financial statements.

B. BENEFICIAL INTERESTS IN TRUSTS

During 2004, the station received $52,312 in funds held in a trust for the benefit of the Station. The funds have been recorded in the Station's financial statements as beneficial interests in trusts. The Station received immaterial interest or dividend income during 2005 and 2004. Total market value at June 30, 2005 and 2004 was $54,797 and $52,486, respectively.

C. PROPERTY, PLANT AND EQUIPMENT

Classification of property, plant and equipment is as follows:

	2005	2004
Land and buildings	$ 1,996,036	$ 1,996,036
Broadcast equipment	3,231,180	3,215,339
Production equipment	1,608,412	1,608,412
Furniture, fixtures and office equipment	441,537	425,597
	7,277,165	7,245,384
Less accumulated depreciation	(4,068,411)	(3,617,763)
Property, plant and equipment, net	$ 3,208,754	$ 3,627,621

C. PROPERTY, PLANT AND EQUIPMENT - Continued

Pursuant to the Statement of Understanding and Purpose between MBPE and WNPT, in the event that any of the real property transferred from MBPE to NPT should cease to be used for a public television station or be mortgaged or used as collateral for a loan on or before June 30, 2009, such property is subject to reversion to MBPE under MBPE's perpetual right of first refusal to acquire such broadcast related assets. In addition, certain equipment which was partially funded by governmental grants is subject to lien in the event of sale or disposition to entities other than public broadcasting stations.

D. FILM AND PROGRAM COSTS

During fiscal 2004, the Station produced a documentary on the life of Hank Williams. Total film costs of $568,565 and $496,663 were incurred through June 30, 2005 and 2004, respectively. Amortization expense of $287,156 and $281,409 was recorded on film costs for the year ended June 30, 2005 and 2004, respectively. The station realized all remaining revenue on the documentary and amortized the remaining film costs during the fiscal year ended June 30, 2005.

During fiscal 2001 the Station produced an educational program for resale with total program costs of $215,000. Amortization expense of $43,000 and was recorded for the years ended June 30, 2005 and 2004. The Station expects to realize all remaining revenue on the programs during the fiscal year June 30, 2006.

E. IN-KIND DONATIONS AND DONATED PERSONAL SERVICES VOLUNTEERS

In-kind contributions are recorded as revenue and expenses in the accompanying statements of activities. These contributions consists of services recorded at the estimated fair market value, as determined by the provider, at the date of the gift, as follows:

	Years Ended June 30,	
	2005	2004
Revenue - underwriting	$281,500	$288,767
Expenses:		
Program information	-	-
Broadcasting	281,500	288,767
Administration	-	-
Programming and production	-	-
Development and fund raising	-	-
	$281,500	$288,767

F. LINE-OF-CREDIT

The Station had an unsecured line-of-credit with a commercial bank in the amount of $500,000, which expires August 13, 2008. Borrowings are at the lender's prime rate (5.75% at June 30, 2005). The Station had no outstanding balance on the line-of-credit at June 30, 2005 or 2004.

G. COMMITMENTS

At June 30, 2005 the Station had the following commitments related to fiscal year 2006.

Purchase of programming from the Public Broadcasting System (PBS)	$726,369
PBS membership dues and interconnect fees	140,215
National Educational Telecommunication Association annual dues	9,845
Tennessee Public Television Council (TPTC) annual dues	15,475
BBC programming	15,400
	$907,304

In the event that the Station should lease, license, sell or convey a portion of its digital television signal to third parties for commercial purposes, the Station is obligated to pay fifty percent of any related net proceeds to MBPE until June 30, 2009.

H. DEFINED CONTRIBUTION RETIREMENT PLAN

The Station has a 403(b) defined contribution retirement plan for eligible employees. Under this plan, the Station contributes a minimum of two percent (for which no employee contribution is required) up to a maximum of eight percent (through matching provisions) of employee salaries, subject to Internal Revenue Service limitations. The total amounts contributed under this plan were $138,108 and $99,838 for 2005 and 2004, respectively.

During fiscal 2005, the station discovered it had been under funding it's contribution to its' retirement plan due to a misinterpretation of the plan document. As of June 30, 2005, the station accrued a liability of $31,000 to remedy the deficiency which will be satisfied during fiscal 2006.

I. CONCENTRATIONS OF CREDIT RISK

The Station maintains its cash in bank deposit accounts, which at times may exceed federally insured limits. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to $100,000. The Station maintains its accounts with high credit quality financial institutions and has never experienced any losses in such accounts.

J. NET ASSETS AND NET ASSETS RELEASED FROM DONOR RESTRICTIONS

Temporarily restricted net assets at June 30, 2005 and 2004 consisted of the following:

	2005	2004
Agency for Instructional Technology Grant	$ 6,000	$12,000
Healthy Habits of Life Program	25,000	-
	$31,000	$12,000

Net assets of $6,000 in fiscal 2005 and $1,235,783 in fiscal 2004 were released from donor restrictions by incurring costs and expenses satisfying the restricted purposes or by occurrence of other events specified by donors. The purpose restrictions accomplished were for program services and additional equipment.

Permanently restricted net assets at June 30, 2005 and 2004 consisted of a beneficial interest in a trust.