

Consolidated Financial Statements and
Supplementary Information Together with
Report of Independent Certified Public Accountants

SESAME WORKSHOP AND SUBSIDIARIES

For the years ended June 30, 2019 and 2018

SESAME WORKSHOP AND SUBSIDIARIES

TABLE OF CONTENTS

	Page(s)
Report of Independent Certified Public Accountants	1 - 2
Consolidated Financial Statements:	
Consolidated Statements of Financial Position as of June 30, 2019 and 2018	3
Consolidated Statements of Activities for the years ended June 30, 2019 and 2018	4
Consolidated Statements of Cash Flows for the years ended June 30, 2019 and 2018	5
Notes to Consolidated Financial Statements	6 - 23

GRANT THORNTON LLP

757 Third Ave., 9th Floor
New York, NY 10017-2013

D +1 212 599 0100
F +1 212 370 4520
S [linkd.in/grantthorntonus](https://www.linkedin.com/company/grantthorntonus)
twitter.com/grantthorntonus

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Trustees of
Sesame Workshop and Subsidiaries:

Report on the financial statements

We have audited the accompanying consolidated financial statements of Sesame Workshop and Subsidiaries (the “Company”), which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management’s responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s responsibility

Our responsibility is to express an opinion on these consolidated 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company’s preparation and fair presentation of the consolidated financial statements in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sesame Workshop and Subsidiaries as of June 30, 2019 and 2018, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

New York, New York
October 23, 2019

SESAME WORKSHOP AND SUBSIDIARIES
Consolidated Statements of Financial Position
As of June 30, 2019 and 2018
(in thousands)

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and cash equivalents	\$ 19,102	\$ 21,856
Receivables:		
Programs, product licenses, and contracts in support of programs, less allowance for doubtful accounts of \$490 in 2019 and \$583 in 2018	22,013	23,285
Grants and contributions, net	19,981	13,440
Total receivables	41,994	36,725
Programs in process	61,918	19,461
Investments	237,762	226,933
Intangible assets, net	32,436	34,464
Property and equipment, net	18,082	19,469
Other assets, net	3,627	2,958
Total assets	<u>\$ 414,921</u>	<u>\$ 361,866</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 45,290	\$ 34,335
Deferred revenues	41,166	26,864
Deferred rent payable	13,580	14,597
Total liabilities	<u>100,036</u>	<u>75,796</u>
NET ASSETS		
Net assets without donor restrictions	276,440	260,950
Net assets with donor restrictions	38,445	25,120
Total net assets	<u>314,885</u>	<u>286,070</u>
Total liabilities and net assets	<u>\$ 414,921</u>	<u>\$ 361,866</u>

The accompanying notes are an integral part of these consolidated financial statements.

SESAME WORKSHOP AND SUBSIDIARIES
Consolidated Statements of Activities
For the years ended June 30, 2019 and 2018
(in thousands)

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES						
Program support	\$ 15,373	\$ 52,829	\$ 68,202	\$ 11,819	\$ 35,967	\$ 47,786
Distribution fees and royalties	67,457	-	67,457	52,931	-	52,931
Licensing	35,322	-	35,322	34,517	-	34,517
Investment return designated for operations	822	-	822	-	-	-
Net assets released from restrictions	39,504	(39,504)	-	26,734	(26,734)	-
Total operating revenues	<u>158,478</u>	<u>13,325</u>	<u>171,803</u>	<u>126,001</u>	<u>9,233</u>	<u>135,234</u>
EXPENSES						
Program expenses:						
Media and education	65,485	-	65,485	55,065	-	55,065
Global social impact	43,905	-	43,905	30,263	-	30,263
Creative	9,066	-	9,066	9,640	-	9,640
Strategy and research	4,016	-	4,016	4,486	-	4,486
Total program expenses	<u>122,472</u>	<u>-</u>	<u>122,472</u>	<u>99,454</u>	<u>-</u>	<u>99,454</u>
Support expenses:						
Fundraising	4,866	-	4,866	4,283	-	4,283
General and administrative	22,202	-	22,202	20,711	-	20,711
Total support expenses	<u>27,068</u>	<u>-</u>	<u>27,068</u>	<u>24,994</u>	<u>-</u>	<u>24,994</u>
Total operating expenses	<u>149,540</u>	<u>-</u>	<u>149,540</u>	<u>124,448</u>	<u>-</u>	<u>124,448</u>
Operating income	8,938	13,325	22,263	1,553	9,233	10,786
Investment return, net	<u>6,707</u>	<u>-</u>	<u>6,707</u>	<u>15,501</u>	<u>-</u>	<u>15,501</u>
Increase in net assets before benefit for income taxes	15,645	13,325	28,970	17,054	9,233	26,287
Provision (benefit) for income taxes	<u>155</u>	<u>-</u>	<u>155</u>	<u>(13)</u>	<u>-</u>	<u>(13)</u>
Increase in net assets	15,490	13,325	28,815	17,067	9,233	26,300
Net assets, beginning of year	<u>260,950</u>	<u>25,120</u>	<u>286,070</u>	<u>243,883</u>	<u>15,887</u>	<u>259,770</u>
Net assets, end of year	<u>\$ 276,440</u>	<u>\$ 38,445</u>	<u>\$ 314,885</u>	<u>\$ 260,950</u>	<u>\$ 25,120</u>	<u>\$ 286,070</u>

The accompanying notes are an integral part of these consolidated financial statements.

SESAME WORKSHOP AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the years ended June 30, 2019 and 2018
(in thousands)

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 28,815	\$ 26,300
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	3,339	3,486
Amortization of intangible assets	2,028	2,027
Amortization of programs in process	28,609	20,421
Change in provision for uncollectible receivables	93	328
Investment return, net	(7,529)	(16,528)
Changes in operating assets and liabilities:		
Increase in gross receivables	(5,362)	(3,466)
Additions to programs in process	(71,066)	(21,858)
(Increase) decrease in other assets	(669)	493
Increase in accounts payable and accrued expenses	12,168	3,559
Increase in deferred revenues	14,302	2,033
Decrease in deferred rent payable	<u>(1,017)</u>	<u>(750)</u>
Net cash provided by operating activities	<u>3,711</u>	<u>16,045</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property and equipment	(1,952)	(1,817)
Purchases of investments	(191,658)	(55,428)
Proceeds from sale of investments	<u>188,358</u>	<u>41,979</u>
Net cash used in investing activities	<u>(5,252)</u>	<u>(15,266)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on capital lease obligation	<u>(1,213)</u>	<u>(1,177)</u>
Net cash used in financing activities	<u>(1,213)</u>	<u>(1,177)</u>
Net decrease in cash and cash equivalents	(2,754)	(398)
Cash and cash equivalents, beginning of year	<u>21,856</u>	<u>22,254</u>
Cash and cash equivalents, end of year	<u>\$ 19,102</u>	<u>\$ 21,856</u>
Supplemental cash flow disclosures:		
Cash paid for income taxes	<u>\$ 131</u>	<u>\$ 280</u>
Cash paid for interest	<u>\$ 75</u>	<u>\$ -</u>

The accompanying notes are an integral part of these consolidated financial statements.

SESAME WORKSHOP AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

1. ORGANIZATION AND MISSION

Sesame Workshop (the “Company”) is a nonprofit 501(c)(3) corporation whose mission is to help kids grow smarter, stronger and kinder. It achieves its mission by developing and distributing innovative and entertaining educational content for children. The Company organizes its activities into two operating units to most efficiently deliver on its mission. The Media and Education group distributes the Company’s educational content through mass media platforms, including television, mobile, interactive, print and live entertainment, in the U.S. and around the world, with a focus on developed and developing markets. This group is responsible for creating and distributing *Sesame Street*, the Company’s flagship preschool series, which premiered in the United States in 1969 and is currently broadcasting its 49th season. This group’s primary sources of revenues are the sale and licensing of educational content and the licensing of the *Sesame Street* characters and brand, both domestically and internationally.

The second group, Global Social Impact & Philanthropy, focuses its efforts on un-served, underserved, and vulnerable communities in the U.S. and less developed markets. It creates and distributes content for specific target audiences, including creating and distributing local versions of *Sesame Street* that are developed in partnership with local experts, designed to address the educational needs of children in their own countries. It also creates needs-driven public services initiatives and outreach programs that provide age-appropriate materials and behavior change strategies around themes of access to early education, critical health lessons, and tools for vulnerable children. Projects address health and sanitation, parent engagement, traumatic childhood experiences, financial empowerment, military deployment, refugee response and school readiness. This group’s primary source of revenue is direct funding support for its educational programs and initiatives from foundations, corporations, government agencies, and individuals.

Overall, *Sesame Street* has been seen in over 160 countries, including 30 *Sesame Street* international co-productions. Taking advantage of all forms of media and using those that are best suited to delivering a particular curriculum, the Company effectively and efficiently reaches millions of children, parents, caregivers and educators.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Sesame Workshop’s wholly owned, not-for-profit subsidiaries include the following:

- Sesame Street, Inc.;
- Electric Company, Inc.;
- Galli Galli Sim Sim Educational Initiative (“GGSSEI”);
- The Joan Ganz Cooney Center for Educational Media and Research (“JGCC”); and
- Sesame Workshop International Inc (“SWII”).

Sesame Workshop’s wholly owned, for-profit subsidiaries include the following:

- Sesame Workshop India Initiatives, PLC;
- Sesame Street Brand Management and Service (Shanghai) Co., Ltd; and
- CTW Communications, Inc. (“CTW/C”).

SESAME WORKSHOP AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

These subsidiaries are consolidated in the Company's financial statements. All significant intercompany accounts and transactions have been eliminated in consolidation.

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities ("ASU 2016-14"). The ASU amends the current reporting model for not-for-profit organizations and requires certain additional disclosures. The significant changes include:

- Requiring the presentation of two net asset classes classified as "net assets without donor restrictions" and "net assets with donor restrictions";
- Modifying the presentation of underwater endowment funds and related disclosures;
- Requiring the use of the placed in service approach to recognize the satisfaction of restrictions on gifts used to acquire or construct long-lived assets, absent explicit donor stipulations otherwise;
- Requiring that all not-for-profits present an analysis of expenses by function and nature in a separate statement or in the notes to the financial statements;
- Requiring disclosure of quantitative and qualitative information on liquidity;
- Presenting investment return net of external and direct internal investment expenses; and
- Modifying other financial statement reporting requirements and disclosures intended to increase the usefulness to the reader.

The Company adopted ASU 2016-14 as of and for the year ended June 30, 2019.

Accordingly, the Company's resources are classified and reported based upon the existence or absence of donor-imposed restrictions, as follows:

Without Donor Restrictions - net assets that are not subject to donor-imposed restrictions and, therefore, are available to meet the Company's objectives. Net assets without donor restrictions may also be designated by the Company's Board of Trustees (Notes 8 and 12).

With Donor Restrictions - net assets that are subject to donor-imposed restrictions that either expire with the passage of time or, can be fulfilled and removed by the actions of the Company pursuant to those restrictions, or which may be perpetual (Notes 8 and 12).

SESAME WORKSHOP AND SUBSIDIARIES
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

A presentation of net assets as previously reported as of June 30, 2018 and 2017, and as required under ASU 2016-14 follows (in thousands):

	June 30, 2018			
	Presentation under ASU 2016-14			
	As Previously Presented	Without Donor Restrictions	With Donor Restrictions	Total
Net assets:				
Unrestricted	\$ 260,950	\$ 260,950	\$ -	\$ 260,950
Temporarily restricted	<u>25,120</u>	<u>-</u>	<u>25,120</u>	<u>25,120</u>
Total net assets	<u>\$ 286,070</u>	<u>\$ 260,950</u>	<u>\$ 25,120</u>	<u>\$ 286,070</u>
	June 30, 2017			
	Presentation under ASU 2016-14			
	As Previously Presented	Without Donor Restrictions	With Donor Restrictions	Total
Net assets:				
Unrestricted	\$ 243,883	\$ 243,883	\$ -	\$ 243,883
Temporarily restricted	<u>15,887</u>	<u>-</u>	<u>15,887</u>	<u>15,887</u>
Total net assets	<u>\$ 259,770</u>	<u>\$ 243,883</u>	<u>\$ 15,887</u>	<u>\$ 259,770</u>

Measure of Operations

Operations include all revenues and expenses other than income and losses generated by the Company's investments and income taxes.

Cash and Cash Equivalents

Cash consists of cash on deposit with banks. Cash equivalents represent short-term investments with original maturities of three months or less from the date of purchase. Cash and cash equivalents managed by the Company's investment managers as part of its long-term investment strategy are included in investments. The Company maintains its cash and cash equivalents in various bank accounts and money market funds that, at times, may exceed federally insured limits. The Company's cash and cash equivalent accounts were placed with high credit quality financial institutions. The Company has not experienced, nor does it anticipate, any losses in such accounts.

Program Support

Program support revenues include contributions, both with and without donor restrictions, from individuals, corporations and foundations, corporate sponsorships, and grants and contracts from governments and government agencies to support the development, production and distribution of educational content. Contributions from individuals and foundations are recognized upon receipt of verifiable documentation of a promise to give. Corporate sponsorship revenue is recognized pro rata over the corresponding term of the agreement. Grants and awards received from governments or government agencies are recognized as the

SESAME WORKSHOP AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

awards are expended. Included within program support revenue in the accompanying consolidated statements of activities was revenue from two foundations of \$25.1 million and \$17.4 million, respectively, for the year ended June 30, 2019 and revenue from one foundation of \$9.3 million for the year ended June 30, 2018.

Distribution Fees and Royalties

Distribution fees and royalties are generated from the distribution and licensing of the Company's content across various media platforms including television, home video and audio, print, digital streaming, download to own and live entertainment.

Revenues from the sale or licensing of video content for broadcast or digital distribution are recognized when there is evidence of a sale or licensing arrangement, the program is complete and has been delivered or is available for delivery, the license period has begun and the arrangement fee is determinable and deemed collectible. Other distribution revenues are recognized as income as they are earned over the related license periods. Included within distribution fees and royalties in the accompanying consolidated statements of activities was \$39.2 million and \$31.2 million from one distribution partner for the years ended June 30, 2019 and 2018, respectively.

Licensing

The Company's share of revenues from the licensing of its characters and brands for use in consumer products including, toys, games, clothing and food, is recognized as income as it is earned over the related license periods. Included within licensing revenue in the accompanying consolidated statements of activities was \$9.8 million from one licensee of the Company for both years ended June 30, 2019 and 2018, respectively.

Fair Value Measurements

The FASB issued Accounting Standards Codification ("ASC") Topic 820 which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The standard provides a consistent definition of fair value, which focuses on an exit price between market participants in an orderly transaction. The standard also prioritizes, within the measurement of fair value, the use of market-based information over entity-specific information and establishes a three-level hierarchy for fair value measurements based on the transparency of information used in the valuation of an asset or liability as of the measurement date.

Assets and liabilities, subject to the standard, measured and reported at fair value are classified and disclosed in one of the following categories:

- Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the measurement date.
- Level 2 - Pricing inputs, including broker quotes, are generally those other than exchange quoted prices in active markets, which are either directly or indirectly observable as of the measurement date, and fair value is determined through the use of models or other valuation methodologies.

SESAME WORKSHOP AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

Level 3 - Pricing inputs are unobservable for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. The inputs into the determination of fair value require significant management judgment or estimation. Investments that are included in this category generally include privately held investments and partnership interests.

Fair value estimates are made at a specific point in time, based on available market information and judgments about the financial asset, including estimates of timing, amount of expected future cash flows and the credit standing of the issuer. In some cases, the fair value estimates cannot be substantiated by comparison to independent markets.

Investments

Investments are measured and reported at fair value. Changes in fair value are reported as investment return, net in the accompanying consolidated statements of activities.

The fair value of debt and equity securities with a readily determinable fair value is based on quotations obtained from national security exchanges. Alternative investments are carried at net asset value (“NAV”) as provided by the investment managers or General Partners. The Company’s management reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used in determining their estimated fair value.

Purchases and sales of securities are reflected on a trade-date basis. Gains and losses on sales of securities are based on average cost and are recorded in the consolidated statements of activities in the period in which the securities are sold. Dividends are accrued based on the ex-dividend date. Interest is recognized as earned.

All 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 such changes could materially affect the amounts reported in the consolidated statements of financial position.

Programs in Process

Programs in process include costs that relate to programs that will broadcast in the next three fiscal years. These costs are amortized on an individual production basis in the ratio that current year gross revenue bears to estimated future gross revenues. If the capitalized costs for an individual production are greater than the estimated future gross revenues, such costs are written down to net realizable value. Exploitation costs, related to new programs, are expensed as incurred.

Long-Lived Assets and Intangible Assets

Recoverability of long-lived assets and definite-lived intangible assets is assessed periodically and impairments, if any, are recognized in operating results if a permanent diminution in value were to occur when the carrying value of the asset exceeds its fair value, calculated using an undiscounted cash flow analysis. No impairment charges were incurred for the years ended June 30, 2019 and 2018, respectively.

SESAME WORKSHOP AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

Depreciation and Amortization

Property and equipment are depreciated on a straight-line basis over their estimated useful lives, which range from three to ten years. Leasehold improvements are amortized over their useful lives or the remaining term of the lease, whichever is shorter (Note 6). Intangible assets are amortized on a straight-line basis over their estimated useful lives, ranging from ten to twenty years (Note 3).

Taxes

The Company follows guidance that clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This guidance provides that the tax effects from an uncertain tax position can only be recognized in the consolidated financial statements if the position is “more-likely-than-not” to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged.

The Company is exempt from income tax under IRC section 501(c)(3), though it is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Code. The Company has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it has nexus; and to identify and evaluate other matters that may be considered tax positions. The Company has determined that there are no material uncertain tax positions that require recognition or disclosure in the consolidated financial statements.

Contingencies

The Company may be involved in various legal actions from time to time arising in the normal course of business. In the opinion of management, there are no matters outstanding that would have a material adverse effect on the consolidated financial statements of the Company.

The Company receives a portion of its revenue from government grants, which are subject to audit by various federal and state agencies. The ultimate determination of amounts received under these grants generally is based upon allowable costs reported to and audited by the governments or their designees. The liabilities, if any, arising from such compliance audits cannot be determined at this time. In the opinion of management, adjustments resulting from such audits, if any, will not have a significant effect on the consolidated financial position, changes in net assets or cash flows of the Company.

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 affect the reported amounts of assets and liabilities and changes therein, disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

SESAME WORKSHOP AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

New Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which supersedes most of the current revenue recognition requirements. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of time value of money in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers: Deferral of the Effective Date*, which deferred the effective date of ASU 2014-09 by one year. The guidance is effective for interim and annual periods on or after December 15, 2018 (early adoption is permitted only as of annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period). The guidance permits the use of either a retrospective or cumulative effect transition method. ASU No. 2014-09 is effective for the Company for fiscal year 2020. The Company is currently evaluating the new guidance and has not determined the impact this standard may have on its consolidated financial statements.

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* ("ASU 2018-08"). ASU 2018-8 requires the Company to determine whether a contribution is conditional based on whether an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets. If the agreement (or a referenced document) includes both, the Company is not entitled to the transferred assets (or a future transfer of assets) until it has overcome the barriers in the agreement. The provisions of ASU No. 2018-08 are effective for the Company for fiscal year 2020. The Company is currently evaluating the impact this standard will have on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires organizations that lease assets (lessees) to recognize the assets and related liabilities for the rights and obligations created by the leases on the statement of financial position for leases with terms exceeding 12 months. ASU No. 2016-02 defines a lease as a contract or part of a contract that conveys the right to control the use of identified assets for a period of time in exchange for consideration. The lessee in a lease will be required to initially measure the right-of-use asset and the lease liability at the present value of the remaining lease payments, as well as capitalize initial direct costs as part of the right-of-use asset. ASU No. 2016-02 is effective for the Company for fiscal year 2021. Early adoption is permitted. The Company is currently evaluating the new guidance and has not determined the impact this standard may have on its consolidated financial statements.

Reclassifications

Certain reclassifications were made to the fiscal 2018 consolidated financial statements in order to conform to the fiscal 2019 presentation. Such reclassifications did not change total assets, liabilities, revenues, expenses, or changes in net assets, as reflected in the fiscal 2018 consolidated financial statements.

SESAME WORKSHOP AND SUBSIDIARIES
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

3. INTANGIBLE ASSETS

The Company's intangible assets are being amortized over their estimated useful lives as follows (in thousands):

2019	Estimated Useful Life	Gross Carrying Amount	Accumulated Amortization	Net Balance
Sesame Street Music Rights	20 Years	\$ 2,900	\$ 580	\$ 2,320
Sesame Street Muppets Copyrights and Trademarks	20 Years	133,761	104,334	29,427
Sesame Street Muppets Transaction costs	20 Years	3,130	2,441	689
Sesame Street Muppets License fees	10 Years	<u>1,000</u>	<u>1,000</u>	<u>-</u>
		<u>\$ 140,791</u>	<u>\$ 108,355</u>	<u>\$ 32,436</u>

2018	Estimated Useful Life	Gross Carrying Amount	Accumulated Amortization	Net Balance
Sesame Street Music Rights	20 Years	\$ 2,900	\$ 435	\$ 2,465
Sesame Street Muppets Copyrights and Trademarks	20 Years	133,760	102,494	31,266
Sesame Street Muppets Transaction costs	20 Years	3,130	2,397	733
Sesame Street Muppets License fees	10 Years	<u>1,000</u>	<u>1,000</u>	<u>-</u>
		<u>\$ 140,790</u>	<u>\$ 106,326</u>	<u>\$ 34,464</u>

Amortization expense totaling approximately \$2.0 million has been recorded on these assets for each of the years ended June 30, 2019 and 2018, respectively.

4. GRANTS AND CONTRIBUTIONS RECEIVABLE

The Company recognizes all grants and contributions receivable at the present value of their estimated future cash flow, discounted using credit adjusted discount rates applicable to the years in which the promises were received and which articulate with the collection period of the respective receivable. Such discount rates ranged from 1.0% to 3.5% at June 30, 2019 and 2018, respectively.

SESAME WORKSHOP AND SUBSIDIARIES
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

Amounts related to productions and/or educational programs that are receivable in less than one year or within one to five years, at June 30, 2019 and 2018, were as follows (in thousands):

	<u>2019</u>	<u>2018</u>
Amounts expected to be collected:		
Within one year	\$ 11,307	\$ 7,198
Within two to five years	<u>8,952</u>	<u>6,400</u>
Total grants and contributions receivable	20,259	13,598
Present value discount	<u>(278)</u>	<u>(158)</u>
Grants and contributions receivable, net	<u>\$ 19,981</u>	<u>\$ 13,440</u>

5. INVESTMENTS

The Company has established an investment objectives and guidelines policy, approved by the Board of Trustees, with the stated purpose of providing long-term resources necessary to sustain the Company and provide capital to support its mission-related activities. The investment policy is based on a highly diversified portfolio structured to be consistent with the Company's investment objectives and risk tolerance in a way that efficiently balances the tradeoff between return, risk and liquidity.

The following tables present the Company's fair value hierarchy for its investments, measured at fair value, as of June 30, 2019 and 2018 (in thousands):

<u>2019</u>	<u># of Funds</u>	<u>Fair Value Net Asset Value</u>	<u>Total</u>
Fixed income (a)	3	\$ 22,898	\$ 22,898
Domestic equities (b)	1	23,454	23,454
International equities (c)	2	45,309	45,309
Hedge funds (e)	3	51,977	51,977
Global balanced fund of funds (f)	1	23,413	23,413
Private equity (g)	2	5,585	5,585
Opportunistic funds (h)	6	2,041	2,041
Venture capital (j)	<u>4</u>	<u>10,577</u>	<u>10,577</u>
Subtotal	<u>22</u>	<u>\$ 185,254</u>	185,254
Cash and cash equivalents			52,008
Other investments			<u>500</u>
Total investments			<u>\$ 237,762</u>

SESAME WORKSHOP AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

2018	# of Funds	Fair Value		Total
		Level 1	Net Asset Value	
Fixed income (a)	5	\$ 32,390	\$ 21,245	\$ 53,635
Domestic equities (b)	3	10,229	22,545	32,774
International equities (c)	3	1,341	46,251	47,592
Commodities (d)	2	-	4,081	4,081
Hedge funds (e)	3	-	45,167	45,167
Global balanced fund of funds (f)	1	-	23,496	23,496
Private equity (g)	2	-	6,829	6,829
Opportunistic funds (h)	3	-	1,659	1,659
Treasury inflation-protected securities (“TIPS”) (i)	1	-	735	735
Venture capital (j)	4	-	5,168	5,168
Subtotal	<u>27</u>	<u>\$ 43,960</u>	<u>\$ 177,176</u>	221,136
Cash and cash equivalents				5,297
Other investments				<u>500</u>
Total investments				<u>\$ 226,933</u>

The Company uses NAV to determine the fair value of all the underlying investments which (1) do not have a readily determinable fair value and (2) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company.

The following lists investments by major category:

- (a) This category combines investments in commingled funds employing a range of strategies with direct holdings of treasuries and fixed-income futures positions to arrive at a diversified portfolio of corporate credit (both investment grade and below investment grade), bank loan, asset backed and government fixed-income securities.
- (b) This category combines positions in commingled funds investing in segments of the U.S. equity market with direct holdings of U.S. equity futures and exchange-traded funds (“ETFs”) to arrive at a broadly diversified portfolio of publicly traded/listed U.S. equities.
- (c) This category combines positions in commingled funds investing in both developed and emerging market securities with direct holdings of non-U.S. equity ETFs to arrive at a broadly diversified portfolio of publicly traded/listed non-U.S. equities.
- (d) This category consists of commodity-backed investments through a portfolio of inflation-indexed securities and other fixed-income instruments.
- (e) This category includes investments in hedge funds employing a variety of diversifying strategies including equity long/short, fixed-income relative value, convertible arbitrage, merger arbitrage, equity market-neutral, global macro, long/short credit, and other opportunities.

SESAME WORKSHOP AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

- (f) This category includes broadly diversified investments in offshore and U.S. managed funds.
- (g) This category includes funds that invest in privately held domestic and international corporations. The nature of the investments in this category is that the distributions are received through the liquidation of the underlying assets of the fund. The investment period for these two funds has expired so the likelihood of any additional capital call from the funds is very limited.
- (h) This category includes investments focusing on distressed debt and equity securities, as well as direct loans made to middle market companies. The nature of the investments in this category is that the distributions are received through the liquidation of the underlying assets of the fund. The total amount of unfunded commitments pertaining to these investments totaled \$3.0 million and \$0.4 million as of June 30, 2019 and 2018, respectively. The timing to draw down on these commitments ranged from 1 to 3 years at June 30, 2019 and from 1 to 3 years at June 30, 2018.
- (i) This category consisted of direct holdings of inflation-protected securities issued by the U.S. Treasury.
- (j) This category includes investments in funds managed by Venture Capital Firms who invest in mission-aligned, privately held early stage companies. The nature of the investments in this category is that the distributions are received through the liquidation of the underlying assets of the fund. The total amount of unfunded commitments pertaining to these investments totaled \$3.0 million and \$7.0 million for the years ended June 30, 2019 and 2018, respectively. The timing to draw down on these commitments are expected to occur over the next 5 years.

Investments valued at NAV or its equivalent as of June 30, 2019, consisted of the following (in thousands):

Alternative Investment Strategy	# of Funds	NAV in Funds	Redemption Terms	Redemption Restrictions
Fixed income	3	\$ 22,898	One fund monthly with 30 days notice, one fund monthly with 10 days notice, one fund monthly with 15 days notice.	None.
Domestic equities	1	23,454	Monthly with 30 days notice.	None.
International equities	2	45,309	Monthly with 30 days notice.	None.
Hedge funds	3	51,977	One fund is quarterly with 90 days notice, two funds are daily and have been given redemption notices and are currently in liquidation.	None.
Global balanced fund of funds	1	23,413	Monthly with 30 days notice.	None.
Private equity	2	5,585	Investments are distributed when underlying assets are sold.	Investments are distributed when underlying assets are sold.
Opportunistic funds	6	2,041	Investments are distributed when underlying assets are sold.	Investments are distributed when underlying assets are sold.
Venture capital	4	<u>10,577</u>	Investments are distributed when underlying assets are sold.	Investments are distributed when underlying assets are sold.
Total		<u>\$ 185,254</u>		

SESAME WORKSHOP AND SUBSIDIARIES
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

Investments valued at NAV or its equivalent as of June 30, 2018, consisted of the following (in thousands):

<u>Alternative Investment Strategy</u>	<u># of Funds</u>	<u>NAV in Funds</u>	<u>Redemption Terms</u>	<u>Redemption Restrictions</u>
Fixed income	4	\$ 21,245	One fund monthly with 30 days notice, one fund monthly with 10 days notice, one fund monthly with 15 days notice and one fund daily with 1 day notice.	None.
Domestic equities	1	22,545	Monthly with 30 days notice.	None.
International equities	1	46,251	Monthly with 30 days notice.	None.
Commodities	2	4,081	Both funds are daily with 1-2 days notice.	None.
Hedge funds	3	45,167	One fund is quarterly with 90 days notice, two funds are daily and have been given redemption notices and are currently in liquidation.	None.
Global balanced fund of funds	1	23,496	Monthly with 30 days notice.	None.
Private equity	2	6,829	Investments are distributed when underlying assets are sold.	Investments are distributed when underlying assets are sold.
Opportunistic funds	3	1,659	One fund quarterly with 30 days notice, two funds are daily	Investments are distributed when underlying assets are sold.
TIPS	1	735	Daily with 1 day notice.	None.
Venture capital	4	<u>5,168</u>	Investments are distributed when underlying assets are sold.	Investments are distributed when underlying assets are sold.
Total		<u>\$ 177,176</u>		

6. OFFICE LEASE AND PROPERTY AND EQUIPMENT

The Company maintains a lease for its main office space through June 30, 2030. The lease terms included both landlord contributions toward the cost of construction, as well as, rent abatements. The Company recognizes rent expense on a straight-line basis over the lease term, inclusive of the rent abatements and landlord contributions.

Total future commitments under this lease at June 30, 2019 were as follows (in thousands):

2020	\$ 5,992
2021	5,992
2022	5,992
2023	5,992
2024	6,258
Thereafter	<u>38,081</u>
	<u>\$ 68,307</u>

Rent expense totaled \$5.0 million for each of the years ended June 30, 2019 and 2018, respectively.

SESAME WORKSHOP AND SUBSIDIARIES
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

At June 30, 2019 and 2018, property and equipment consisted of (in thousands):

	Useful Life	2019	2018
	In Years	2019	2018
Technology and office equipment	3 - 4	\$ 7,358	\$ 6,832
Furniture and fixtures	4 - 10	4,834	4,834
Leasehold improvements	Remaining Life of Lease	21,624	21,555
Assets not yet placed into service	N/A	1,097	800
		<u>34,913</u>	<u>34,021</u>
Less: accumulated depreciation and amortization		<u>(16,831)</u>	<u>(14,552)</u>
		<u>\$ 18,082</u>	<u>\$ 19,469</u>

Depreciation expense totaled approximately \$3.3 million and \$3.5 million for the years ended June 30, 2019 and 2018, respectively. During the years ended June 30, 2019 and 2018, \$1.1 million and \$2.1 million, respectively, of fully depreciated assets were written off by the Company since they were no longer in service.

7. CAPITAL LEASE OBLIGATION

The Company maintains several capital leases for technology and office equipment. The following is a schedule of annual future minimum lease payments (in thousands) due under the Company's capital lease obligations, together with the present value of the net minimum lease payments:

<u>Year Ending June 30:</u>	
2020	\$ 936
2021	426
2022	279
2023	190
2024	<u>38</u>
Total minimum lease payments	1,869
Less: amount representing interest	<u>(99)</u>
Present value of minimum lease payments	<u>\$ 1,770</u>

SESAME WORKSHOP AND SUBSIDIARIES
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

8. NET ASSETS

Net assets with donor restrictions which were time and/or purpose restricted as of June 30, 2019 and 2018, were as follows (in thousands):

	Net Assets With Donor Restrictions as of June 30, 2018	Contributions to Net Assets With Donor Restrictions in Fiscal 2019	Net Assets Released From Restrictions in Fiscal 2019	Net Assets With Donor Restrictions as of June 30, 2019
Domestic:				
Autism	\$ 1,286	\$ 131	\$ (536)	\$ 881
Military Families	8	1,250	(654)	604
Sesame Street in Communities	10,570	3,500	(8,752)	5,318
	<u>11,864</u>	<u>4,881</u>	<u>(9,942)</u>	<u>6,803</u>
International:				
Financial Empowerment	1,108	3,400	(2,229)	2,279
Production, Distribution, and Outreach	7,012	11,358	(5,013)	13,357
Refugee Response	3,289	32,778	(20,802)	15,265
Hygiene and Sanitation	1,330	162	(1,011)	481
	<u>12,739</u>	<u>47,698</u>	<u>(29,055)</u>	<u>31,382</u>
Joan Ganz Cooney Center:				
Research and dissemination	517	250	(507)	260
	<u>517</u>	<u>250</u>	<u>(507)</u>	<u>260</u>
Total	<u>\$ 25,120</u>	<u>\$ 52,829</u>	<u>\$ (39,504)</u>	<u>\$ 38,445</u>

SESAME WORKSHOP AND SUBSIDIARIES
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

Net assets with donor restrictions which were time and/or purpose restricted as of June 30, 2018 and 2017 were as follows (in thousands):

	Net Assets With Donor Restrictions as of June 30, 2017	Contributions to Net Assets With Donor Restrictions in Fiscal 2018	Net Assets Released From Restrictions in Fiscal 2018	Net Assets With Donor Restrictions as of June 30, 2018
Domestic:				
Autism	\$ 100	\$ 1,586	\$ (400)	\$ 1,286
Military Families	-	255	(247)	8
Sesame Street in Communities	3,443	13,550	(6,424)	10,569
	<u>3,543</u>	<u>15,391</u>	<u>(7,071)</u>	<u>11,863</u>
International:				
Financial Empowerment	2,065	4,000	(4,957)	1,108
Production, Distribution, and Outreach	6,838	5,658	(5,483)	7,013
Refugee Response	-	9,250	(5,961)	3,289
Hygiene and Sanitation	2,219	1,667	(2,557)	1,329
	<u>11,122</u>	<u>20,575</u>	<u>(18,958)</u>	<u>12,739</u>
Joan Ganz Cooney Center:				
Research and dissemination	1,222	1	(705)	518
	<u>1,222</u>	<u>1</u>	<u>(705)</u>	<u>518</u>
Total	<u>\$ 15,887</u>	<u>\$ 35,967</u>	<u>\$ (26,734)</u>	<u>\$ 25,120</u>

During the year ended June 30, 2019, the Board of Trustees of the JGCC authorized the creation of a quasi-endowment representing its total investment portfolio balance, which included a designated a spending policy equal to 3.5% of its prior year ending investment balance. The amount included as a board designated quasi-endowment at June 30, 2019 totaled \$23.4 million.

9. RETIREMENT PLAN

Sesame Workshop sponsors a 401(k) defined contribution plan (the “Plan”). Substantially all full-time employees of the Company are covered under the Plan, and the Company matches a portion of employee contributions, which vest immediately. The Company’s contributions to the Plan totaled \$3.2 million and \$2.8 million for the years ended June 30, 2019 and 2018, respectively.

10. PROGRAMS IN PROCESS

Programs in process are stated at the lower of unamortized cost or estimated fair value on an individual production basis. Revenue forecasts are continually reviewed by management and revised when warranted by changing conditions. When estimates of total revenues indicate that a production has a fair value that is less than its unamortized cost, a loss is recognized for the amount by which the unamortized cost exceeds the production’s fair value. For the years ended June 30, 2019 and 2018, the Company recognized losses

SESAME WORKSHOP AND SUBSIDIARIES
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

totaling \$0.3 million and \$0.1 million, respectively. For the years ended June 30, 2019 and 2018, exploitation costs of \$3.0 million and \$2.4 million, respectively, were expensed as incurred.

Programs in process, net of amortization, as of June 30, 2019 and 2018, were as follows (in thousands):

	<u>June 30, 2018</u>	<u>Prior Year Productions Released</u>	<u>Fiscal 2019 Additions</u>	<u>Fiscal 2019 Amortization</u>	<u>June 30, 2019</u>
Television productions:					
Released	\$ 5,660	\$ 12,499	\$ 7,048	\$ (23,163)	\$ 2,044
In production	<u>13,801</u>	<u>(12,499)</u>	<u>64,018</u>	<u>(5,446)</u>	<u>59,874</u>
	<u>\$ 19,461</u>	<u>\$ -</u>	<u>\$ 71,066</u>	<u>\$ (28,609)</u>	<u>\$ 61,918</u>

	<u>June 30, 2017</u>	<u>Prior Year Productions Released</u>	<u>Fiscal 2018 Additions</u>	<u>Fiscal 2018 Amortization</u>	<u>June 30, 2018</u>
Television productions:					
Released	\$ 3,502	\$ 14,360	\$ 7,137	\$ (19,339)	\$ 5,660
In production	<u>14,522</u>	<u>(14,360)</u>	<u>14,721</u>	<u>(1,082)</u>	<u>13,801</u>
	<u>\$ 18,024</u>	<u>\$ -</u>	<u>\$ 21,858</u>	<u>\$ (20,421)</u>	<u>\$ 19,461</u>

As of June 30, 2019, the Company estimated that approximately 88% of unamortized production costs from released productions are expected to be amortized in fiscal 2020 and 95% of unamortized production costs from released productions are expected to be amortized within the next three years.

As of June 30, 2018, the Company estimated that approximately 77% of unamortized production costs from released productions are expected to be amortized in fiscal 2019 and 94% of unamortized production costs from released productions are expected to be amortized within the next three years.

11. REVOLVING CREDIT AGREEMENT

On December 11, 2015, the Company entered into a two-year, \$10.0 million revolving line of credit agreement with JPMorgan Chase Bank. The line was extended for an additional two years in December of 2017. Borrowings under the agreement will bear interest at the prevailing LIBOR Rate plus 1.5%. There were no outstanding borrowings under the agreement for the years ended June 30, 2019 and 2018, respectively.

12. LIQUIDITY AND AVAILABILITY OF FINANCIAL RESOURCES

The Company regularly monitors the availability of resources required to meet its operating needs and manages its cash available to meet general expenditures following three guiding principles:

- Operating within a prudent range of financial soundness and stability;
- Maintaining adequate liquid assets; and

SESAME WORKSHOP AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

- Maintaining sufficient reserves to provide reasonable assurance that general expenditures can be covered in the event that current revenues are not sufficient to fund these expenditures.

The Company anticipates generating annual operating surpluses, with revenues sufficient to cover general expenditures not covered by donor-restricted resources. The Company also has various sources of liquidity, including cash, short-term receivables and a line of credit.

In addition to its current liquid assets, the Company also maintains an operating reserve. The operating reserve provides a financial backstop for the Company to fund current operations, if needed, in a time of economic distress or uncertainty. As such, a significant portion of these reserves are invested in highly liquid investment vehicles. In addition, these reserves provide capital for mission-related investments or to expand the Company's programmatic activities.

The following table represents financial assets available within one year for general expenditure at June 30, 2019:

	<u>2019</u>
Cash and cash equivalents	\$ 19,102
Receivables	41,994
Available line of credit	10,000
Investments	<u>237,762</u>
	<u>308,858</u>
Less:	
Net assets with donor restrictions	38,445
Board Designations:	
Operating reserve	214,349
Quasi-endowment fund of the JGCC	<u>23,413</u>
	<u>276,207</u>
Total amounts unavailable due to restrictions	<u>276,207</u>
Total financial assets available for general expenditure within one year	<u>\$ 32,651</u>

SESAME WORKSHOP AND SUBSIDIARIES
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

13. NATURAL CLASSIFICATION OF EXPENSES

Expenses attributable to more than one program or supporting service are allocated based on relevant drivers including square footage, salaries, employee headcount, or time spent. The Company's program expenses include the following categories: Media and Education, Global Social Impact, Creative, and Strategy and Research. The Company's support expenses consist of the following categories: Fundraising and General and Administrative.

	2019						2018	
	Media and Education	Global Social Impact	Creative	Strategy and Research	Fundraising	General and Administrative	Total Operating Expenses	Total Operating Expenses
People costs	\$ 13,833	\$ 11,120	\$ 12,075	\$ 2,062	\$ 2,218	\$ 12,107	\$ 53,415	\$ 47,229
Benefits	2,819	1,736	2,773	678	582	3,121	11,709	10,414
Guild payments	1,830	439	6,630	-	8	26	8,933	8,672
Travel expenses	1,226	1,630	412	146	165	236	3,815	3,124
Outside services	10,216	24,389	50,618	440	735	2,348	88,746	33,125
Advertising and promotion	558	267	32	8	111	17	993	910
Bad debt expense (recovery)	116	-	-	-	(20)	-	96	(213)
Materials and supplies	645	69	396	3	5	108	1,226	1,874
Technology and office equipment	412	337	777	82	75	913	2,596	2,039
Participations and commissions	1,490	-	182	-	-	2	1,674	527
Office costs	702	1,329	381	21	470	995	3,898	2,987
Occupancy expenses	2,137	1,489	3,502	398	341	1,395	9,262	9,605
Miscellaneous expenses	43	26	1	-	1	291	362	219
Depreciation and amortization	2,396	1,074	901	178	175	643	5,367	5,514
Amounts capitalized as programs in process, net of amortization	27,062	-	(69,614)	-	-	-	(42,552)	(1,578)
Total operating expenses	\$ 65,485	\$ 43,905	\$ 9,066	\$ 4,016	\$ 4,866	\$ 22,202	\$ 149,540	\$ 124,448

14. SUBSEQUENT EVENTS

The Company evaluated its June 30, 2019 consolidated financial statements for subsequent events through October 23, 2019, the date the consolidated financial statements were available to be issued. The Company is not aware of any material subsequent events which would require recognition or disclosure in the accompanying consolidated financial statements.