

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

SESAME WORKSHOP AND SUBSIDIARIES

For the years ended June 30, 2017 and 2016

SESAME WORKSHOP AND SUBSIDIARIES

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Grant Thornton LLP
757 Third Avenue, 9th Floor
New York, NY 10017
T 212.599.0100
F 212.370.4520
GrantThornton.com
[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:

We have audited the accompanying consolidated financial statements of Sesame Workshop and Subsidiaries (collectively, the “Company”), which comprise the consolidated statements of financial position as of June 30, 2017 and 2016, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the 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, 2017 and 2016, 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.

Supplementary information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental consolidating schedules of financial position, and activities and consolidated schedule of operating expenses as of and for the year ended June 30, 2017 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Grant Thornton LLP

New York, New York
October 4, 2017

SESAME WORKSHOP AND SUBSIDIARIES
Consolidated Statements of Financial Position
As of June 30, 2017 and 2016
(in thousands)

ASSETS	2017	2016
Cash and cash equivalents	\$ 22,254	\$ 30,322
Receivables:		
Programs, product licenses, and contracts in support of programs, less allowance for doubtful accounts of \$911 in 2017 and \$1,088 in 2016	24,053	19,093
Grants	9,534	11,351
Total receivables	33,587	30,444
Programs in process	18,024	17,220
Investments	196,956	165,674
Intangible assets, net of accumulated amortization of \$104,300 in 2017 and \$102,273 in 2016	36,491	38,518
Property and equipment, net	21,138	21,529
Other assets, net	3,451	3,905
Total assets	<u>\$ 331,901</u>	<u>\$ 307,612</u>
 LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 31,953	\$ 33,608
Deferred revenues	24,831	22,545
Deferred rent payable	15,347	16,097
Total liabilities	<u>72,131</u>	<u>72,250</u>
 NET ASSETS		
Unrestricted	243,883	215,209
Temporarily restricted	15,887	20,153
Total net assets	<u>259,770</u>	<u>235,362</u>
Total liabilities and net assets	<u>\$ 331,901</u>	<u>\$ 307,612</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, 2017 and 2016
(in thousands)

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUES						
Program support	\$ 19,500	\$ 16,172	\$ 35,672	\$ 14,051	\$ 21,336	\$ 35,387
Distribution fees and royalties	48,591	-	48,591	49,636	-	49,636
Licensing	34,229	-	34,229	36,598	-	36,598
Net assets released from restrictions	20,438	(20,438)	-	19,847	(19,847)	-
Total operating revenues	<u>122,758</u>	<u>(4,266)</u>	<u>118,492</u>	<u>120,132</u>	<u>1,489</u>	<u>121,621</u>
EXPENSES						
Program expenses:						
Media and education	52,993	-	52,993	54,010	-	54,010
Global social impact	22,560	-	22,560	22,142	-	22,142
Creative	7,944	-	7,944	7,973	-	7,973
Strategy and research	4,711	-	4,711	5,430	-	5,430
Amortization expense	2,027	-	2,027	2,027	-	2,027
Total program expenses	<u>90,235</u>	<u>-</u>	<u>90,235</u>	<u>91,582</u>	<u>-</u>	<u>91,582</u>
Support expenses:						
Fundraising	3,541	-	3,541	2,426	-	2,426
General and administrative	18,017	-	18,017	20,189	-	20,189
Total support expenses	<u>21,558</u>	<u>-</u>	<u>21,558</u>	<u>22,615</u>	<u>-</u>	<u>22,615</u>
Total operating expenses	<u>111,793</u>	<u>-</u>	<u>111,793</u>	<u>114,197</u>	<u>-</u>	<u>114,197</u>
Operating income (loss)	10,964	(4,266)	6,698	5,935	1,489	7,424
Net investment income (loss)	<u>17,710</u>	<u>-</u>	<u>17,710</u>	<u>(4,575)</u>	<u>-</u>	<u>(4,575)</u>
Increase (decrease) in net assets before interest income and benefit for income taxes	28,674	(4,266)	24,408	1,360	1,489	2,849
Interest income	-	-	-	105	-	105
Benefit for income taxes	-	-	-	(5)	-	(5)
Increase (decrease) in net assets	28,674	(4,266)	24,408	1,470	1,489	2,959
Net assets, beginning of year	<u>215,209</u>	<u>20,153</u>	<u>235,362</u>	<u>213,739</u>	<u>18,664</u>	<u>232,403</u>
Net assets, end of year	<u>\$ 243,883</u>	<u>\$ 15,887</u>	<u>\$ 259,770</u>	<u>\$ 215,209</u>	<u>\$ 20,153</u>	<u>\$ 235,362</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, 2017 and 2016
(in thousands)

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 24,408	\$ 2,959
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	3,305	3,192
Amortization of intangible assets	2,027	2,027
Amortization of programs in process	22,436	21,149
Change in provision for uncollectible receivables	177	384
Net unrealized (appreciation) depreciation on investments	(16,263)	7,010
Gain on sale of investments	(2,738)	(3,217)
Changes in operating assets and liabilities:		
(Increase) decrease in gross receivables	(3,320)	843
Additions to programs in process	(23,240)	(21,891)
Decrease in other assets	454	1,119
(Decrease) increase in accounts payable and accrued expenses	(563)	4,595
Increase in deferred revenues	2,286	13,080
Decrease in deferred rent payable	(750)	(750)
Net cash provided by operating activities	<u>8,219</u>	<u>30,500</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property and equipment	(2,914)	(2,400)
Purchases of investments	(43,309)	(28,607)
Proceeds from sale of investments	31,028	12,676
Acquisition of intangible assets	-	(2,900)
Proceeds from note receivable	-	14,628
Net cash used in investing activities	<u>(15,195)</u>	<u>(6,603)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on capital lease obligation	(1,092)	(1,117)
Net cash used in financing activities	<u>(1,092)</u>	<u>(1,117)</u>
Net (decrease) increase in cash and cash equivalents	(8,068)	22,780
Cash and cash equivalents, beginning of year	30,322	7,542
Cash and cash equivalents, end of year	<u>\$ 22,254</u>	<u>\$ 30,322</u>
Supplemental cash flow disclosures:		
Cash paid for income taxes	<u>\$ 256</u>	<u>\$ 414</u>

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

SESAME WORKSHOP AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

1. ORGANIZATION

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 47th 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, Social Impact and Philanthropy, focuses its efforts on underserved communities in the U.S. and in less developed international markets. It creates and distributes local adaptations 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 service initiatives and outreach programs that provide age appropriate materials around such issues as health and sanitation, parent engagement, financial empowerment, military deployment 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 150 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 (formerly Sesame Workshop India) (“GGSSEI”); and
- The Joan Ganz Cooney Center for Educational Media and Research.

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, 2017 and 2016

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

The classification of the Company's net assets and program support revenue is based on the existence or absence of donor-imposed restrictions. Amounts for each of the three classes of net assets (unrestricted, temporarily restricted and permanently restricted) are displayed in the accompanying consolidated statements of financial position and changes in each of those classes of net assets are displayed in the accompanying consolidated statements of activities, as applicable.

These net asset classes are defined as follows:

Unrestricted net assets

Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Company are considered unrestricted.

Temporarily restricted net assets

Net assets which include resources that have been limited by donor-imposed stipulations that expire with the passage of time and/or can be fulfilled and removed by the actions of the Company pursuant to those stipulations are considered temporarily restricted. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions.

Permanently restricted net assets

Net assets which include funds whereby the donors have stipulated that the principal contributed be invested and maintained in perpetuity. Income earned from these investments is available for expenditures according to restrictions, if any, imposed by donors. At June 30, 2017 and 2016, the Company did not possess any permanently restricted net assets.

Measure of Operations

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

Program Support

Program support revenues include unrestricted and temporarily restricted contributions 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 awards are expended.

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 of DVD's are recognized upon shipment.

SESAME WORKSHOP AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

Television sales revenues 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 \$26.1 million and \$23.4 million from one distribution partner for the years ended June 30, 2017 and 2016, 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 \$11.2 million and \$12.5 million from one licensee of the Company for the years ended June 30, 2017 and 2016, respectively.

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.

Fair Value Measurements

The Financial Accounting Standards Board ("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, 2017 and 2016

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.

The carrying amounts of cash and cash equivalents, receivables, other assets, accounts payable and accrued expenses and other liabilities approximate fair value due to the short-term nature of these financial instruments.

Investments

Investments are measured and reported at fair value. Changes in fair value are reported as net investment income (loss) 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. The alternative investments are carried at NAV as provided by the investment managers. 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.

Inventory

Inventory, which is included within the caption other assets in the accompanying consolidated statements of financial position, consists of DVD's available for sale at June 30, 2017 and 2016, and is carried at the lower of cost or market. Inventory is reviewed for estimated obsolescence or unusable items and, if appropriate, is written down to the net realizable value based upon assumptions about future demand and market conditions. If actual future demand or market conditions are less favorable than those the Company projects, additional inventory write-downs may be required. These are considered permanent adjustments to the cost basis of the inventory. Reserves for inventory obsolescence totaled \$0.8 million and \$1.0 million at June 30, 2017 and 2016, respectively.

SESAME WORKSHOP AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

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, 2017 and 2016, respectively.

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 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.

SESAME WORKSHOP AND SUBSIDIARIES
Notes to Consolidated Financial Statements
June 30, 2017 and 2016

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.

Reclassifications

Certain information in the fiscal 2016 consolidated financial statements has been reclassified to conform to the fiscal 2017 presentation. There were no changes to the change in net assets as reflected in the fiscal 2016 consolidated financial statements.

3. INTANGIBLE ASSETS

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

ASSET	Useful Life	Amount	2017	2016
Sesame Street Music Rights	20 Years	\$ 2,900	\$ 290	\$ 145
Sesame Street Muppets Copyrights and Trademarks	20 Years	133,761	100,655	98,816
Sesame Street Muppets Transaction costs	20 Years	3,130	2,355	2,312
Sesame Street Muppets License fees	10 Years	1,000	1,000	1,000
		<u>\$ 140,791</u>	<u>\$ 104,300</u>	<u>\$ 102,273</u>

Amortization expense totaling \$2.0 million has been recorded on these assets for each of the years ended June 30, 2017 and 2016.

4. GRANTS RECEIVABLE

Amounts related to productions, campaigns and/or educational programs that are receivable in less than one year or within one to five years, at June 30, 2017 and 2016, were as follows (in thousands):

	<u>2017</u>	<u>2016</u>
Within one year	\$ 7,252	\$ 8,592
1 to 5 years	<u>2,282</u>	<u>2,759</u>
	<u>\$ 9,534</u>	<u>\$ 11,351</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.

SESAME WORKSHOP AND SUBSIDIARIES
Notes to Consolidated Financial Statements
June 30, 2017 and 2016

The following tables present the Company's fair value hierarchy for its investments, measured at fair value, as of June 30, 2017 and 2016 (in thousands):

2017	# of Funds	Fair Value		Total
		Level 1	Net Asset Value	
Fixed income (a)	5	\$ 26,043	\$ 19,772	\$ 45,815
Domestic equities (b)	1	-	20,705	20,705
International equities (c)	2	1,071	41,126	42,197
Commodities (d)	2	-	3,015	3,015
Hedge funds (e)	3	-	42,856	42,856
Global balanced fund of funds (f)	1	-	21,837	21,837
Private equity (g)	2	-	7,129	7,129
Opportunistic funds (h)	3	-	1,485	1,485
Treasury inflation-protected securities ("TIPS") (i)	1	-	719	719
Venture capital (j)	3	-	3,835	3,835
Subtotal	23	27,114	162,479	189,593
Cash and cash equivalents				7,363
Total investments				\$ 196,956

2016	# of Funds	Fair Value		Total
		Level 1	Net Asset Value	
Fixed income (a)	5	\$ 20,229	\$ 18,138	\$ 38,367
Domestic equities (b)	1	-	18,444	18,444
International equities (c)	3	984	33,767	34,751
Commodities (d)	2	-	3,315	3,315
Hedge funds (e)	3	-	39,045	39,045
Global balanced fund of funds (f)	1	-	15,969	15,969
Private equity (g)	2	-	7,716	7,716
Opportunistic funds (h)	3	-	1,051	1,051
Treasury inflation-protected securities ("TIPS") (i)	1	-	725	725
Venture capital (j)	2	-	1,809	1,809
Subtotal	23	21,213	139,979	161,192
Cash and cash equivalents				4,482
Total investments				\$ 165,674

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.

SESAME WORKSHOP AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

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 a commodity-backed investment 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.
- (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.
- (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 \$0.8 million and \$1.3 million as of June 30, 2017 and 2016, respectively. The timing to draw down on these commitments ranged from 1 to 4 years at June 30, 2017 and 2016, respectively.
- (i) This category consisted of direct holdings of inflation-protected securities issued by the U.S. Treasury.
- (j) During the year ended June 30, 2016, the Company began investing in funds managed by mission-aligned Venture Capital Firms who invest in 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 \$7.3 million and \$5.5 million for the year ended June 30, 2017 and 2016, respectively. The timing to draw down on these commitments will occur over the next 7 years.

SESAME WORKSHOP AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

Investments valued at net asset value or its equivalent as of June 30, 2017, consisted of the following (in thousands):

Alternative Investment Strategy	# of Funds	NAV in Funds	Redemption Terms	Redemption Restrictions
Fixed income	4	\$ 19,772	One fund monthly with 30 days notice, one fund monthly with 10 days notice, one fund monthly with 5 days notice and one fund daily with 1 day notice.	None.
Domestic equities	1	20,705	Monthly with 30 days notice.	None.
International equities	1	41,126	Monthly with 30 days notice.	None.
Commodities	2	3,015	Both funds are daily with 1 day notice.	None.
Hedge funds	3	42,856	One fund is quarterly with 90 days notice, one fund is daily, and one fund has been given a redemption notice and is currently in liquidation.	None.
Global balanced fund of funds	1	21,837	Monthly with 30 days notice.	None.
Private equity	2	7,129	Investments are distributed when underlying assets are sold.	Investments are distributed when underlying assets are sold.
Opportunistic funds	3	1,485	Two funds, each with a term of 48 months, which may be extended one year, and one fund with a term of 6 years, which may be extended one year.	Investments are distributed when underlying assets are sold.
TIPS	1	719	Daily with 1 day notice.	None.
Venture capital	3	3,835	Investments are distributed when underlying assets are sold.	Investments are distributed when underlying assets are sold.
Total		<u>\$ 162,479</u>		

Investments valued at net asset value or its equivalent as of June 30, 2016, consisted of the following (in thousands):

Alternative Investment Strategy	# of Funds	NAV in Funds	Redemption Terms	Redemption Restrictions
Fixed income	4	\$ 18,138	One fund monthly with 30 days notice, one fund monthly with 15 days notice, one fund monthly with 10 days notice and one fund daily with 1 day notice.	None.
Domestic equities	1	18,444	Monthly with 30 days notice.	None.
International equities	1	33,767	Monthly with 30 days notice.	None.
Commodities	2	3,315	Both funds are daily with 1 day notice.	None.
Hedge funds	3	39,045	One fund is quarterly with 90 days notice, one fund is daily, and one fund has been given a redemption notice and is currently in liquidation.	None.
Global balanced fund of funds	1	15,969	Monthly with 30 days notice.	None.
Private equity	2	7,716	Investments are distributed when underlying assets are sold.	Investments are distributed when underlying assets are sold.
Opportunistic funds	3	1,051	Two funds, each with a term of 48 months, which may be extended one year, and one fund with a term of 6 years, which may be extended one year.	Investments are distributed when underlying assets are sold.
TIPS	1	725	Daily with 1 day notice.	None.
Venture capital	2	1,809	Investments are distributed when underlying assets are sold.	Investments are distributed when underlying assets are sold.
Total		<u>\$ 139,979</u>		

SESAME WORKSHOP AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

Included in net investment (loss) income for the years ended June 30, 2017 and 2016, were the following amounts related to the investment activities of the Company (in thousands):

	<u>2017</u>	<u>2016</u>
Interest and dividend income	\$ 86	\$ 276
Unrealized appreciation (depreciation)	16,263	(7,010)
Realized gains	2,738	3,217
Investment expenses	<u>(1,377)</u>	<u>(1,058)</u>
	<u>\$ 17,710</u>	<u>\$ (4,575)</u>

During the year ended June 30, 2005, the Company entered into a venture with Comcast Corporation, Public Broadcasting Service and HIT Entertainment to form the Children's Network, LLC ("Sprout") for the purpose of producing and distributing educational television programming via a 24 hour digital cable channel and on-demand service branded PBS Kids Sprout. On December 5, 2012, the Company sold its 15% equity ownership in Sprout for \$14.0 million. Upon signing the sales agreement, the Company then entered into an unsecured promissory note in which the unpaid principal amount would accrue interest. Principal balance together with all accrued interest was paid in full on the third anniversary of the closing date in December 2015.

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, 2017 were as follows (in thousands):

2018	\$ 5,725
2019	5,992
2020	5,992
2021	5,992
2022	5,992
2023 and thereafter	<u>50,330</u>
	<u>\$ 80,023</u>

Rent expense totaled \$5.0 million for each of the years ended June 30, 2017 and 2016, respectively.

SESAME WORKSHOP AND SUBSIDIARIES
Notes to Consolidated Financial Statements
June 30, 2017 and 2016

At June 30, 2017 and 2016, property and equipment consisted of (in thousands):

	Useful Life In Years	2017	2016
Technology and office equipment	3 - 4	\$ 7,595	\$ 7,449
Furniture and fixtures	4 - 10	4,834	4,807
Leasehold improvements	Remaining Life of Lease	21,541	20,324
Assets not yet placed into service	N/A	<u>361</u>	<u>856</u>
		34,331	33,436
Less: accumulated depreciation and amortization		<u>(13,193)</u>	<u>(11,907)</u>
		<u>\$ 21,138</u>	<u>\$ 21,529</u>

Depreciation and amortization expense totaled approximately \$3.3 million and \$3.2 million for the years ended June 30, 2017 and 2016, respectively. During the years ended June 30, 2017 and 2016, \$2.0 million and \$2.7 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:

Year ending June 30:

2018	\$ 1,026
2019	956
2020	536
2021	<u>110</u>
Total minimum lease payments	2,628
Less: amount representing interest	<u>(88)</u>
Present value of minimum lease payments	<u>\$ 2,540</u>

SESAME WORKSHOP AND SUBSIDIARIES
Notes to Consolidated Financial Statements
June 30, 2017 and 2016

8. NET ASSETS

Temporarily restricted net assets which were time and/or purpose restricted as of June 30, 2017 and 2016, were as follows (in thousands):

	Temporarily Restricted Net Assets as of June 30, 2016	Temporarily Restricted Contributions in Fiscal 2017	Net Assets Released From Restrictions in Fiscal 2017	Temporarily Restricted Net Assets as of June 30, 2017
International production, distribution & outreach	\$ 2,357	\$ 6,703	\$ (4,399)	\$ 4,661
Health programs	3,448	903	(3,064)	1,287
School readiness programs	3,002	-	(1,803)	1,199
Financial empowerment	3,762	4,000	(5,698)	2,064
Social & emotional well-being programs	6,677	3,339	(4,511)	5,505
Research programs of the Joan Ganz Cooney Center	907	1,227	(963)	1,171
	<u>\$ 20,153</u>	<u>\$ 16,172</u>	<u>\$ (20,438)</u>	<u>\$ 15,887</u>

Temporarily restricted net assets which were available for educational programs as of June 30, 2016 and 2015 were as follows (in thousands):

	Temporarily Restricted Net Assets as of June 30, 2015	Temporarily Restricted Contributions in Fiscal 2016	Net Assets Released From Restrictions in Fiscal 2016	Temporarily Restricted Net Assets as of June 30, 2016
International production, distribution & outreach	\$ 5,355	\$ 4,051	\$ (7,049)	\$ 2,357
Health programs	1,414	4,219	(2,185)	3,448
School readiness programs	3,079	1,652	(1,729)	3,002
Financial empowerment	4,468	4,000	(4,706)	3,762
Science programs	152	-	(152)	-
Social & emotional well-being programs	2,707	6,308	(2,338)	6,677
Research programs of the Joan Ganz Cooney Center	1,489	1,106	(1,688)	907
	<u>\$ 18,664</u>	<u>\$ 21,336</u>	<u>\$ (19,847)</u>	<u>\$ 20,153</u>

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 \$2.5 million and \$2.4 million for each of the years ended June 30, 2017 and 2016, respectively.

SESAME WORKSHOP AND SUBSIDIARIES
Notes to Consolidated Financial Statements
June 30, 2017 and 2016

10. INCOME TAXES

At June 30, 2017 and 2016, CTW/C had net loss carryforwards totaling \$8.2 million, representing \$2.8 million of tax benefits. Deferred tax assets are periodically evaluated to determine their recoverability, and where recovery is not likely, a valuation allowance is established. Valuation allowances of \$2.8 million have been recorded at June 30, 2017 and 2016, respectively, due to the uncertainty of realizing these tax benefits.

Net operating loss carryforwards were available at June 30, 2017, and will expire, if unused, in the following years (in thousands):

2018	\$ 7,348
2019	668
2020	131
2021	36
2022 and thereafter	22
	<u>\$ 8,205</u>

11. 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, 2017 and 2016, the Company recognized losses totaling \$2.1 million and \$1.4 million, respectively. For the years ended June 30, 2017 and 2016, exploitation costs of \$1.0 million and \$1.7 million, respectively, were expensed as incurred.

Programs in process, net of amortization, as of June 30, 2017 and 2016, were as follows (in thousands):

	June 30, 2016	Prior Year Productions Released	Fiscal 2017 Additions	Fiscal 2017 Amortization	June 30, 2017
Television productions:					
Released	\$ 3,978	\$ 11,447	\$ 6,471	\$ (18,394)	\$ 3,502
In production	13,242	(11,447)	16,769	(4,042)	14,522
	<u>\$ 17,220</u>	<u>\$ -</u>	<u>\$ 23,240</u>	<u>\$ (22,436)</u>	<u>\$ 18,024</u>
	June 30, 2015	Prior Year Productions Released	Fiscal 2016 Additions	Fiscal 2016 Amortization	June 30, 2016
Television productions:					
Released	\$ 3,626	\$ 11,847	\$ 5,008	\$ (16,503)	\$ 3,978
In production	12,852	(11,847)	16,883	(4,646)	13,242
	<u>\$ 16,478</u>	<u>\$ -</u>	<u>\$ 21,891</u>	<u>\$ (21,149)</u>	<u>\$ 17,220</u>

SESAME WORKSHOP AND SUBSIDIARIES
Notes to Consolidated Financial Statements
June 30, 2017 and 2016

As of June 30, 2017, the Company estimated that approximately 20% of unamortized production costs from released productions are expected to be amortized in fiscal 2017 and 72% of unamortized production costs from released productions are expected to be amortized within the next three years.

As of June 30, 2016, the Company estimated that approximately 45% of unamortized production costs from released productions are expected to be amortized in fiscal 2017 and 77% of unamortized production costs from released productions are expected to be amortized within the next three years.

12. 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. 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, 2017 and 2016, respectively.

13. SUBSEQUENT EVENTS

The Company evaluated its June 30, 2017 consolidated financial statements for subsequent events through October 4, 2017, 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.

SUPPLEMENTARY INFORMATION

SESAME WORKSHOP AND SUBSIDIARIES
Consolidating Schedule of Financial Position
As of June 30, 2017
(in thousands)

	Sesame Workshop	Electric Company, Inc.	Sesame Street, Inc.	CTW Communications, Inc.	Galli Galli Sim Sim Educational Initiative	Joan Ganz Cooney Center for Educational Media and Research	Sesame Workshop India Initiatives, PLC	Sesame Street Brand Mgmt. and Service (Shanghai) Co.,Ltd.	Elimination Entries	Consolidated
ASSETS										
Cash and cash equivalents	\$ 19,379	\$ -	\$ 35	\$ 12	\$ -	\$ 1,799	\$ 595	\$ 434	\$ -	\$ 22,254
Receivables:										
Programs, product licenses, and contracts in support of programs, less allowance for doubtful accounts of \$911 in 2017 and \$1,088 in 2016	24,033	-	-	-	-	-	20	-	-	24,053
Grants	9,032	-	-	-	-	502	-	-	-	9,534
Total receivables	33,065	-	-	-	-	502	20	-	-	33,587
Intercompany receivables	6,196	3,470	10,811	-	-	-	-	-	(20,477)	-
Programs in process	17,951	-	-	31	-	-	-	42	-	18,024
Investments	174,933	-	-	-	-	21,837	186	-	-	196,956
Intangible assets, net of accumulated amortization of \$104,300 in 2017 and \$102,273 in 2016	36,491	-	-	-	-	-	-	-	-	36,491
Property and equipment, net	21,138	-	-	-	-	-	-	-	-	21,138
Other assets, net	2,201	-	-	-	-	-	1,236	14	-	3,451
Total assets	\$ 311,354	\$ 3,470	\$ 10,846	\$ 43	\$ -	\$ 24,138	\$ 2,037	\$ 490	\$ (20,477)	\$ 331,901
LIABILITIES AND NET ASSETS (DEFICIT)										
LIABILITIES										
Accounts payable and accrued expenses	\$ 31,140	\$ 79	\$ 123	\$ -	\$ -	\$ 4	\$ 570	\$ 37	\$ -	\$ 31,953
Deferred revenues	24,532	33	93	-	-	9	164	-	-	24,831
Deferred rent payable	15,347	-	-	-	-	-	-	-	-	15,347
Intercompany payables	-	-	-	12,405	2,320	3,353	1,455	946	(20,477)	-
Total liabilities	71,019	112	216	12,405	2,320	3,366	2,189	983	(20,477)	72,131
NET ASSETS (DEFICIT)										
Unrestricted	225,621	3,358	10,630	(12,361)	(2,320)	19,600	(152)	(493)	-	243,883
Temporarily restricted	14,714	-	-	-	-	1,172	1	-	-	15,887
Total net assets (deficit)	240,335	3,358	10,630	(12,361)	(2,320)	20,772	(151)	(493)	-	259,770
Total liabilities and net assets (deficit)	\$ 311,354	\$ 3,470	\$ 10,846	\$ 43	\$ -	\$ 24,138	\$ 2,037	\$ 490	\$ (20,477)	\$ 331,901

This schedule should be read in conjunction with the accompanying consolidated financial statements and notes thereto.

SESAME WORKSHOP AND SUBSIDIARIES
Consolidating Schedule of Activities
For the year ended June 30, 2017
(in thousands)

	Unrestricted									Temporarily Restricted						Total Temporarily Restricted	Consolidated
	Sesame Workshop	Electric Company, Inc.	Sesame Street, Inc.	CTW Communications, Inc.	Galli Galli Sim Sim Educational Initiative	Joan Ganz Cooney Center for Educational Media and Research	Sesame Workshop India Initiatives, PLC	Sesame Street Brand Mgmt. and Service (Shanghai) Co., Ltd.	Elimination Entries	Total Unrestricted	Sesame Workshop	Joan Ganz Cooney Center for Educational Media and Research	Sesame Workshop India Initiatives, PLC	Elimination Entries			
REVENUES																	
Program support	\$ 13,388	\$ -	\$ -	\$ -	\$ -	\$ 6,084	\$ 3,267	\$ 1,119	\$ (4,359)	\$ 19,500	\$ 14,943	\$ 1,227	\$ 2	\$ -	\$ 16,172	\$ 35,672	
Distribution fees and royalties	47,807	157	437	-	-	4	186	-	-	48,591	-	-	-	-	-	48,591	
Licensing	34,198	-	-	-	-	-	36	(5)	-	34,229	-	-	-	-	-	34,229	
Net assets released from restrictions	19,249	-	-	-	-	963	226	-	-	20,438	(19,249)	(963)	(226)	-	(20,438)	-	
Total operating revenues	114,642	157	437	-	-	7,051	3,715	1,114	(4,359)	122,758	(4,306)	264	(224)	-	(4,266)	118,492	
EXPENSES																	
Program expenses:																	
Media and education	52,884	37	58	-	-	-	-	1,133	(1,119)	52,993	-	-	-	-	-	52,993	
Global social impact	22,391	-	-	-	-	-	3,409	-	(3,240)	22,560	-	-	-	-	-	22,560	
Creative	7,944	-	-	-	-	-	-	-	-	7,944	-	-	-	-	-	7,944	
Strategy and research	2,672	-	-	-	-	2,039	-	-	-	4,711	-	-	-	-	-	4,711	
Amortization expense	2,027	-	-	-	-	-	-	-	-	2,027	-	-	-	-	-	2,027	
Total program expenses	87,918	37	58	-	-	2,039	3,409	1,133	(4,359)	90,235	-	-	-	-	-	90,235	
Support expenses:																	
Fundraising	3,541	-	-	-	-	-	-	-	-	3,541	-	-	-	-	-	3,541	
General and administrative	18,016	-	-	1	-	-	-	-	-	18,017	-	-	-	-	-	18,017	
Total support expenses	21,557	-	-	1	-	-	-	-	-	21,558	-	-	-	-	-	21,558	
Total operating expenses	109,475	37	58	1	-	2,039	3,409	1,133	(4,359)	111,793	-	-	-	-	-	111,793	
Operating income (loss)	5,167	120	379	(1)	-	5,012	306	(19)	-	10,964	(4,306)	264	(224)	-	(4,266)	6,698	
Net investment income	15,821	-	-	-	-	1,868	20	1	-	17,710	-	-	-	-	-	17,710	
Increase (decrease) in net assets (deficit)	20,988	120	379	(1)	-	6,880	326	(18)	-	28,674	(4,306)	264	(224)	-	(4,266)	24,408	
Net assets (deficit), beginning of year	204,633	3,238	10,251	(12,360)	(2,320)	12,720	(478)	(475)	-	215,209	19,020	908	225	-	20,153	235,362	
Net assets (deficit), end of year	\$ 225,621	\$ 3,358	\$ 10,630	\$ (12,361)	\$ (2,320)	\$ 19,600	\$ (152)	\$ (493)	\$ -	\$ 243,883	\$ 14,714	\$ 1,172	\$ 1	\$ -	\$ 15,887	\$ 259,770	

This schedule should be read in conjunction with the accompanying consolidated financial statements and notes thereto.

SESAME WORKSHOP AND SUBSIDIARIES
Consolidated Schedule of Operating Expenses
For the year ended June 30, 2017
(in thousands)

	<u>Media and Education</u>	<u>Global Social Impact</u>	<u>Creative</u>	<u>Strategy and Research</u>	<u>Amortization Expense</u>	<u>Fundraising</u>	<u>General and Administrative</u>	<u>Total Operating Expenses</u>
People costs	\$ 11,279	\$ 6,153	\$ 10,538	\$ 2,959	\$ -	\$ 1,647	\$ 10,844	\$ 43,420
Benefits	2,684	1,103	2,057	688	-	381	2,628	9,541
Guild payments	1,602	228	6,844	3	-	11	-	8,688
Travel and entertainment	973	848	285	115	-	105	191	2,517
Outside services	8,830	8,818	5,859	613	-	506	1,996	26,622
Advertising and promotion	445	192	5	8	-	27	4	681
Bad debt expense (recovery)	(155)	20	-	-	-	2	-	(133)
Materials and supplies	1,350	57	345	3	-	10	119	1,884
Technology and office equipment	1,128	536	949	263	-	109	(762)	2,223
Participations and commissions	51	-	70	-	-	-	-	121
Office costs	335	1,322	280	20	-	281	856	3,094
Occupancy expenses	2,759	1,373	3,339	640	-	276	201	8,588
Miscellaneous expenses	(91)	8	1	(3)	-	-	105	20
Depreciation and amortization	-	-	12	-	2,027	-	3,292	5,331
Allocated expenses	-	-	-	-	-	-	-	-
Staff Allocations	1,120	1,893	(1,144)	(598)	-	186	(1,457)	-
Amounts capitalized as programs in process, net of amortization	<u>20,683</u>	<u>9</u>	<u>(21,496)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(804)</u>
Total operating expenses	<u>\$ 52,993</u>	<u>\$ 22,560</u>	<u>\$ 7,944</u>	<u>\$ 4,711</u>	<u>\$ 2,027</u>	<u>\$ 3,541</u>	<u>\$ 18,017</u>	<u>\$ 111,793</u>

This schedule should be read in conjunction with the accompanying consolidated financial statements and notes thereto.