Combined Financial Statements and Report of Independent Certified Public Accountants

Corporation for Public Broadcasting and Affiliate

September 30, 2019 and 2018

Contents

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Corporation for Public Broadcasting and Affiliate:

Report on the financial statements

We have audited the accompanying combined financial statements of Corporation for Public Broadcasting and Affiliate (a nonprofit organization) (the "Corporation"), which comprise the combined statements of financial position as of September 30 2019 and 2018, and the related combined statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation's preparation and fair presentation of the combined 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 Corporation'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 combined 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 combined financial statements referred to above present fairly, in all material respects, the financial position of Corporation for Public Broadcasting and Affiliate as of September 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

Arlington, Virginia
March 5, 2020

Corporation for Public Broadcasting and Affiliate

COMBINED STATEMENTS OF FINANCIAL POSITION

September 30,

ASSETS	**2019**	**2018**
Cash and cash equivalents	$ 90,980,193	$ 34,170,628
Short-term investments	79,932,896	140,440,670
Investments - other	40,000,000	40,000,000
Receivables, net	20,692,580	22,190,007
Prepaid expenses and other	515,370	618,507
Property and equipment, net	3,332,450	206,135
Total assets	$ 235,453,489	$ 237,625,947
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	$ 8,219,828	$ 6,501,135
Appropriated grants and contracts payable, net	123,885,626	146,899,714
Lease incentive obligation	1,900,899	-
Total liabilities	134,006,353	153,400,849
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Designated	98,024,201	83,930,426
Investment in property and equipment	3,332,450	206,135
Literary Classics, Inc.	90,485	88,537
Total net assets without donor restrictions	101,447,136	84,225,098
Total liabilities and net assets	$ 235,453,489	$ 237,625,947

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

Corporation for Public Broadcasting and Affiliate

COMBINED STATEMENTS OF ACTIVITIES

Years ended September 30,

	2019	2018
Revenue		
Federal appropriations:		
General	$ 445,000,000	$ 445,000,000
Public broadcasting interconnection	20,000,000	20,000,000
Investment income	8,857,431	5,199,842
Department of Education - Ready-to-Learn	20,860,337	18,176,727
Royalties and other income	1,622,936	1,569,730
Grant and contract refunds	1,986,546	3,614,306
Total revenue	498,327,250	493,560,605
Expenses		
Program services:		
Television programming	78,910,644	69,936,412
Radio programming:		
Radio Program Fund	7,280,606	7,600,714
National program production and acquisition grants	23,551,122	22,929,461
System support:		
Television community service grants	226,907,047	225,824,681
Radio community service grants	69,913,342	69,107,678
Digital	-	1,033,939
Public broadcasting interconnection	847,940	82,531,852
Department of Education - Ready-to-Learn	20,860,337	18,176,727
Other system support	27,246,270	34,757,991
Long-term contracts payable present value adjustment	3,340,617	(4,497,358)
	458,857,925	527,402,097
Corporate administration and other expenses	22,247,287	21,725,786
Total expenses	481,105,212	549,127,883
Changes in net assets without donor restrictions	17,222,038	(55,567,278)
Net assets without donor restrictions, beginning of year	84,225,098	139,792,376
Net assets without donor restrictions, end of year	$ 101,447,136	$ 84,225,098

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

Corporation for Public Broadcasting and Affiliate

COMBINED STATEMENTS OF FUNCTIONAL EXPENSES

Year ended September 30, 2019

	Program Services			System Support							Corporate Administration	
	Television programming	Radio Program Fund	National program production and acquisition grants	TV community service grants	Radio community service grants	Digital	Public broadcasting interconnection	Department of Education - Ready-to-Learn	Other system support	Long-term contracts payable present value adjustment	Management and general	Total
Grants and contracts	$ 78,910,644	$ 7,280,606	$ 23,551,122	$ 226,907,047	$ 69,913,342	$ -	$ 847,940	$ 19,990,717	$ 26,643,608	$ 3,340,617	$ -	$ 457,385,643
Staff expenses	-	-	-	-	-	-	-	707,919	-	-	16,812,950	17,520,869
Occupancy	-	-	-	-	-	-	-	-	-	-	2,628,569	2,628,569
Office and IT expenses	-	-	-	-	-	-	-	9,637	15,265	-	1,115,766	1,140,668
Professional services	-	-	-	-	-	-	-	50,826	72,532	-	652,496	775,854
Travel	-	-	-	-	-	-	-	27,866	-	-	366,216	394,082
Meetings and conferences	-	-	-	-	-	-	-	46,070	334,910	-	166,400	547,380
Depreciation	-	-	-	-	-	-	-	-	-	-	165,296	165,296
Non-staff travel	-	-	-	-	-	-	-	25,698	179,955	-	12,974	218,627
Other	-	-	-	-	-	-	-	1,604	-	-	326,620	328,224
	$ 78,910,644	$ 7,280,606	$ 23,551,122	$ 226,907,047	$ 69,913,342	$ -	$ 847,940	$ 20,860,337	$ 27,246,270	$ 3,340,617	$ 22,247,287	$ 481,105,212

Year ended September 30, 2018

	Program Services			System Support							Corporate Administration	
	Television programming	Radio Program Fund	National program production and acquisition grants	TV community service grants	Radio community service grants	Digital	Public broadcasting interconnection	Department of Education - Ready-to-Learn	Other system support	Long-term contracts payable present value adjustment	Management and general	**Total**
Grants and contracts	$ 69,936,412	$ 7,600,714	$ 22,929,461	$ 225,824,681	$ 69,107,678	$ 1,033,939	$ 82,531,852	$ 17,308,583	$ 34,286,451	$ (4,497,358)	$ -	$ 526,062,413
Staff expenses	-	-	-	-	-	-	-	656,106	-	-	16,275,674	16,931,780
Occupancy	-	-	-	-	-	-	-	-	-	-	3,140,685	3,140,685
Office and IT expenses	-	-	-	-	-	-	-	7,919	15,204	-	497,527	520,650
Professional services	-	-	-	-	-	-	-	24,323	18,385	-	891,388	934,096
Travel	-	-	-	-	-	-	-	25,724	-	-	321,668	347,392
Meetings and conferences	-	-	-	-	-	-	-	131,252	337,339	-	140,737	609,328
Depreciation	-	-	-	-	-	-	-	-	-	-	170,334	170,334
Non-staff travel	-	-	-	-	-	-	-	21,258	100,612	-	27,366	149,236
Other	-	-	-	-	-	-	-	1,562	-	-	260,407	261,969
	$ 69,936,412	$ 7,600,714	$ 22,929,461	$ 225,824,681	$ 69,107,678	$ 1,033,939	$ 82,531,852	$ 18,176,727	$ 34,757,991	$ (4,497,358)	$ 21,725,786	$ 549,127,883

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

Corporation for Public Broadcasting and Affiliate

COMBINED STATEMENTS OF CASH FLOWS

Years ended September 30,

	2019	2018
Cash flows from operating activities		
Changes in net assets	$ 17,222,038	$ (55,567,278)
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Depreciation and amortization	165,296	170,334
Loss on disposal of fixed assets	37,979	-
Tenant improvement allowance	(1,644,204)	-
(Increase) decrease in assets:		
Receivables, net	1,497,427	3,958,460
Prepaid expenses	103,137	(19,887)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	1,718,693	(87,891)
Appropriated grants and contracts payable	(23,014,088)	51,543,924
Lease incentive obligation	1,900,899	-
Net cash used in operating activities	(2,012,823)	(2,338)
Cash flows from investing activities:		
Purchase of property and equipment	(1,685,386)	(37,477)
Purchase of investments	(351,632,233)	(355,368,005)
Proceeds from investments	412,140,007	334,768,637
Net cash provided by (used in) investing Activities	58,822,388	(20,636,845)
Net increase (decrease) in cash and cash equivalents	56,809,565	(20,639,183)
Cash and cash equivalents, beginning of year	34,170,628	54,809,811
Cash and cash equivalents, end of year	$ 90,980,193	$ 34,170,628

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

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Corporation for Public Broadcasting (the Corporation) is a District of Columbia not-for-profit corporation authorized to receive federal appropriations under Title II of the Public Broadcasting Act of 1967, as amended (the Act). The Corporation is recognized as exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code, except on activities unrelated to its exempt purpose. The Corporation is not a private foundation as defined in Section 509(a) of the Internal Revenue Code.

The primary source of funding to the Corporation is the federal government. Congress has approved advance annual appropriations to the Corporation through fiscal year 2021. The initial annual advance appropriations for fiscal years 2018 and 2019 were $445,000,000 in each year. In fiscal year 2018, the advance appropriation was initially reduced by a 0.6791% rescission contained in the Continuing Appropriations Act, 2018 and Supplemental Appropriations for Disaster Relief Requirements Act, 2017, PL 115-56, resulting in an appropriation of $441,978,005. However, the full appropriation of $445,000,000 was later restored after the passage of the Consolidated Appropriations Act, 2018, PL 115-141. For fiscal year 2019, the Corporation received the full advance appropriation, which was included in the Consolidated Appropriations Act, 2017, Public Law 115-31. The initial annual advance appropriations for fiscal years 2020 and 2021 are also $445,000,000 in each year.

Basis of Combination

The combined financial statements are presented on an accrual basis and include the accounts of Literary Classics, Inc., a District of Columbia not-for-profit corporation exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Literary Classics, Inc. was created in fiscal year 2003 to act as the custodian for certain classic films valuable to the public broadcasting industry. Combined financial statements are presented because of the common control of the Corporation and Literary Classics, Inc. All intercompany balances and transactions have been eliminated in the combination.

Basis of Presentation

The combined financial statement presentation follows the accounting standards requirements for not-for-profit organizations. Under these standards, an organization is required to report information regarding its financial position and activities according to two classes of net assets depending upon the existence and/or nature of any donor restrictions as follows: net assets without donor restrictions and net assets with donor restrictions.

All the net assets of the Corporation at September 30, 2019 and 2018 are classified as without donor restrictions.

Use of Estimates

The preparation of the combined 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 amounts reported and related disclosures. Actual results could differ from those estimates.

Revenue and Expense Recognition

The general federal appropriation is an unconditional, nonreciprocal contribution of cash to the Corporation from Congress. The federal appropriation is recognized as revenue in the year received.

In the absence of restrictions imposed by a donor, or when restrictions on a donation are met in the same reporting period the donation is made, the Corporation recognizes donations it receives as without donor restrictions. Net assets released from restrictions (i.e., the donor-stipulated purpose has been met and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets in the combined statements of activities.

Royalties and other income, which primarily include royalty payments related to certain productions funded by the Corporation, are recognized as they are earned.

Unconditional grants and contracts awarded by the Corporation are recognized as expenses and payables when the applicable agreements are executed. The outstanding balances of unconditional grants that are expected to be paid more than one year from the balance sheet date are discounted to their present values.

Contracts that are contingent upon specific fiscal year funding and whose scope of work differentiates fiscal year activity are recognized as expenses in the relevant fiscal year. Multi-year system royalty contracts are expensed over the term of the agreements.

Unexpended balances of grants and contracts awarded by the Corporation are required to be returned to the Corporation by grantees. If grant and contract refunds become known in the same period in which the grant or contract was expensed, the refunds are offset against grant and contract expenses. Otherwise, the grant and contract refunds are recorded as revenue when the amount of refund due to the Corporation becomes known, normally when a final accounting by the grantee is submitted.

Cash and Cash Equivalents

The Corporation considers all highly-liquid debt instruments with an original maturity of three months or less from the date of purchase to be cash equivalents. Cash equivalents may include United States Treasury bills, federal agency securities, commercial paper, certificates of deposit, money market deposits and repurchase agreements. The carrying amount approximates fair value because of the short maturity of the instruments. The Corporation requires repurchase agreements to be collateralized by United States Treasury securities.

Short-Term Investments

The Corporation carries its short-term investments at fair value as per FASB Accounting Standards Codification 820 (ASC 820), *Fair Value Measurement*. Short-term investments may include United States Treasury bills, federal agency securities, corporate bonds and commercial paper.

Investments - Other

Investments-other include certificates of deposit from financial institutions that are held for investment, that are not debt securities and that have an original maturity greater than three months. Certificates of deposit are valued at amortized cost.

Concentration of Risk

Financial instruments which potentially subject the Corporation to concentrations of credit risk include cash and cash equivalents, short-term investments and investments-other. At times, the Corporation's cash exceeds the current insured amounts under the Federal Deposit Insurance Corporation (FDIC). As of September 30, 2019, the Corporation's cash balances exceeded the current insured amount under FDIC by approximately $4,400,484. The Corporation holds United States Treasury bills and corporate bonds and commercial paper issued by financially-strong corporations. By policy, these investments are kept within limits designed to reduce risks caused by concentration.

Receivables

Receivables consist primarily of grant funds to be returned, accrued interest and receivables from the U.S. Department of Education. The Corporation records an allowance for doubtful accounts on its outstanding receivables based on specific identification of uncollectible accounts.

Property and Equipment

Property and equipment, which include furniture and fixtures, computer equipment, software and leasehold improvements, are stated at cost, less accumulated depreciation computed on the straight-line method. Individual items with an original cost of $1,500 or more are capitalized. Furniture and fixtures, computer equipment and software are depreciated over their estimated useful lives of three to seven years. Leasehold improvements are amortized over the remaining term of the lease or the useful lives of the improvements, whichever is shorter.

Recently Adopted New Accounting Pronouncements

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14). The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity of available resources, and the lack of consistency in the type of information provided about expenses and investment return. ASU 2016-14 (1) reduces the number of net asset classes presented from three to two; (2) requires the presentation of expenses by functional and natural classification in one location; and (3) requires quantitative and qualitative disclosures about liquidity and availability of financial assets. Effective October 1, 2018, the Corporation adopted ASU 2016-14 and the comparative totals and disclosures from the combined financial statements for the year ended September 30, 2018, have been adjusted to reflect retrospective application of the new accounting guidance. As a result, 2018 net assets classified as unrestricted net assets have been reclassified as net assets without donor restrictions within the combined statements of financial position.

NOTE B - LIQUIDITY RESOURCES

As mentioned earlier, the Corporation’s primary revenue source is the federal government, which provides a two-year advance general appropriation. An advance appropriation is one made to become available one year or more beyond the year for which the appropriations act is passed. Also stated earlier, the Corporation’s initial annual advance appropriations for fiscal years 2020 and 2021 are $445,000,000 in each year. While these appropriations are already written into law, they could be modified during subsequent Congressional budgetary processes. The Corporation receives the funds from its general appropriation on the first business day of each fiscal year.

The Corporation also periodically receives from Congress additional, separate appropriations to help the public broadcasting system achieve specific objectives.

By statute, investment income earned on general appropriation funds may only be used to help fund future radio and television programming grants and investment income earned on funds from separate appropriations inure to the benefit of the projects funded by those appropriations.

Outside of direct Congressional appropriations, the Corporation is currently engaged in a cooperative agreement with the U.S. Department of Education, Ready-to-Learn. Throughout the course of the cooperative agreement, the Corporation draws down reimbursement for its actual expenditures rather than receiving advance funding.

The Corporation does not produce programming, it does not own, operate or control any public broadcasting stations and it does not conduct fundraising. Any royalties earned by the Corporation on certain productions it funds must be used to help fund future programming grants.

The Corporation distributes the general appropriation among program and support services in accordance with a statutory budgetary formula outlined in the Act. It is only over administrative expenses that the Corporation may exercise discretion as to how the funds are spent. The Act's budgetary formula limits the amount of funds available for administrative expenses to five percent of the general appropriation for any given fiscal year and at the end of each fiscal year, unexpended administrative funds roll into system support. The consequence of this structure is that the Corporation is precluded from building operating reserves from appropriated funds.

Therefore, as of the dates of the combined statements of financial position, financial assets available to meet general expenditures within one year are limited to the balance of unappropriated funds. These include cumulative monies received from unsolicited donations and bequests from private donors, the balance of which was about $2,578,991, as of September 30, 2019, and are a component of the cash and cash equivalents, and investments balances on the combined statements of financial position.

Anticipated operating expenses for the upcoming fiscal year far exceed the balance of financial assets available to meet general expenditures within one year. However, subsequent year appropriations fund subsequent year operating costs and, as stated above, the Corporation has a two-year advance general appropriation and receives general appropriation funds on the first day of each fiscal year.

NOTE C - SHORT-TERM INVESTMENTS

Short-term investments consist of the following at September 30:

	2019	2018
Federal agency discount notes and debentures	$ 19,842,022	$ 77,054,425
Corporate bonds	40,176,600	48,504,040
Commercial paper	19,914,274	14,882,205
	$ 79,932,896	$ 140,440,670

Fair Value Measurements

ASC 820 provides the framework for measuring fair value. That framework includes a fair value hierarchy that prioritizes the inputs to valuation techniques used to value fair value. The guidance maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available.

Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances.

Based upon the transparency of inputs, the three levels of the fair value hierarchy under ASC 820 are described as follows:

Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the report date. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market.

Level 2 - Fair value is based on pricing inputs other than quoted prices in active markets and which are either directly or indirectly observable as of the report date. The nature of these securities includes investments for which quoted prices are available but traded less frequently than securities traded on what are deemed active markets.

Level 3 - Pricing of securities are unobservable as of the report date. The inputs to the determination of fair value are not observable and require significant judgment or estimation.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the Corporation's perceived risk of that instrument.

The following tables set forth, by investment category and level within the fair value hierarchy, the Corporation's short-term investments as of September 30, 2019 and 2018:

	2019			
	Level 1	Level 2	Level 3	Total
Federal agency discount notes and debentures	$ 19,842,022	$ -	$ -	$ 19,842,022
Corporate bonds	40,176,600	-	-	40,176,600
Commercial paper	19,914,274	-	-	19,914,274
	$ 79,932,896	$ -	$ -	$ 79,932,896

	2018			
	Level 1	Level 2	Level 3	Total
Federal agency discount notes and debentures	$ 77,054,425	$ -	$ -	$ 77,054,425
Corporate bonds	48,504,040	-	-	48,504,040
Commercial paper	14,882,205	-	-	14,882,205
	$ 140,440,670	$ -	$ -	$ 140,440,670

NOTE D - RECEIVABLES

Receivables consist of the following at September 30:

	2019	2018
Grants and grant refunds receivable	$ 642,100	$ 977,214
U.S. Department of Education receivable	18,714,679	20,505,783
Other	1,660,244	1,031,453
Receivables, gross	21,017,023	22,514,450
Less: allowance for doubtful accounts	(324,443)	(324,443)
Receivables, net	$ 20,692,580	$ 22,190,007

NOTE E - PROPERTY AND EQUIPMENT, NET

Property and equipment consist of the following at September 30:

	2019	2018
Furniture and equipment	$ 2,193,465	$ 1,889,339
Software	1,900,413	1,900,413
Leasehold improvements	2,255,353	831,667
Construction in progress	1,217,262	-
	7,566,493	4,621,419
Less: accumulated depreciation and amortization	(4,234,043)	(4,415,284)
Total property and equipment, net	$ 3,332,450	$ 206,135

Depreciation and amortization expense was $165,296 and $170,334 for the years ended September 30, 2019 and 2018, respectively.

NOTE F - ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consist of the following at September 30:

	2019	2018
Trade accounts payable	$ 367,353	$ 223,132
Accrued personnel and related costs	6,100,857	5,914,170
Deferred rent liability	905,751	252,453
Other accrued expenses	845,867	111,380
Total accounts payable and accrued expenses	$ 8,219,828	$ 6,501,135

NOTE G - APPROPRIATED GRANTS AND CONTRACTS PAYABLE

At September 30, the amounts due for appropriated grants and contracts payable were as follows:

	2019	2018
Amount payable:		
Within one year	$ 92,590,233	$ 71,219,336
In one to five years	32,452,134	80,177,736
Total appropriated grants and contracts payable	125,042,367	151,397,072
Less: Unamortized discount	(1,156,741)	(4,497,358)
Appropriated grants and contracts payable, net	$ 123,885,626	$ 146,899,714

All grants are stated at present value. Discount rates for contracts payable are based upon one- to three-year Treasury yield curve rates on September 30, depending on the estimated maturity of each contract. The discount rates ranged from 1.63% to 2.88% for 2019 and from 0.42% to 2.88% for 2018.

NOTE H - NET ASSETS WITHOUT DONOR RESTRICTIONS

As of September 30, the portion of net assets without donor restrictions which has been designated by statute for specific purposes, is summarized as follows:

	2019	2018
Project funding commitments:		
Television support	$ 24,361,755	$ 26,413,684
Radio support	7,097,082	6,464,580
Public broadcasting interconnection	50,339,032	28,922,487
Other system support and corporate administration	15,069,591	17,632,317
Long-term contracts payable discount	1,156,741	4,497,358
Total designated net assets	$ 98,024,201	$ 83,930,426

Also included in net assets without donor restrictions on the combined statements of financial position are the Corporation’s investment in property and equipment, net of accumulated depreciation, and the net assets of Literary Classics, Inc.

NOTE I - PROGRAM SERVICES, SYSTEM SUPPORT AND ADMINISTRATION

Descriptions of programs and supporting services conducted by the Corporation are as follows:

- *Television programming* represents expenses for development and support of high-quality national television programming and educational projects that might not otherwise be supported by the marketplace.

- *Radio Program Fund* represents expenses for the development and production of high-quality, new and innovative radio programs that might not otherwise be supported by the marketplace.

- *National program production and acquisition grants* are restricted grants made to qualified public radio stations which must be used for the production, acquisition, promotion or distribution of national radio programs that are of high quality, creative and reflect society's diversity.

- *Community service grants* are unrestricted general operating grants made to qualified public television and radio stations.

- *Digital* refers to grants and other expenses that since 2001 have supported public television and radio stations in their efforts to convert and expand their broadcasts and services to a digital medium.

- *Public broadcasting interconnection system* funding began in fiscal year 2016 and provides for the development and implementation of a new interconnection system to be used by both public television and radio stations to transmit and receive programming feeds. Congress provides these funds so that improved technology may enable public television and public radio stations to share certain elements of a new interconnection system, leading to greater efficiencies. In fiscal year 2018, Congress expanded the interconnection account to allow the Corporation to fund, in addition to interconnection, "other technologies and services that create infrastructure and efficiencies within the public media system."

- *Ready-to-Learn* is a five-year cooperative agreement funded by the U.S. Department of Education that supports the development of educational television and digital media targeted at preschool and early elementary school children and their families. The current term of the agreement is from October 1, 2015, through September 30, 2020.

- *Other system support* represents expenses for the general support and development of the public broadcasting system. Funded activities include grants to qualified public television stations to help operate their interconnection systems, music royalty fees paid on behalf of the public broadcasting system and various other system-wide activities and functions.

- *Corporate administration and other expenses* include supporting service expenses for Corporation staff, consultants and professional services, travel, printing, publications, rent, communications and utilities, data processing and other administrative support. These expenses are limited by federal statute to 5.0% of the general federal appropriation. The proportion of corporate administrative and other expenses to the general federal appropriation was 5.0% and 4.9%, respectively, for 2019 and 2018.

The Corporation does not allocate administrative or overhead costs to program services or system support. All the amounts presented in the combined statements of functional expenses are direct costs.

NOTE J - BENEFIT PLANS

The Corporation sponsors defined contribution plans covering substantially all its employees. The Corporation contributes to these plans on behalf of its employees pursuant to the provisions of the plans. Contributions are expensed as they are earned by eligible employees. In fiscal years 2019 and 2018, the Corporation expensed plan contributions of $2,144,953 and $2,072,193, respectively.

NOTE K - COMMITMENTS

Lease Commitments

During fiscal year 2019, the Corporation renegotiated and extended the operating lease for its headquarters facilities in Washington, D.C. The revised lease term is thirteen years beginning May 2019 through April 2032. In addition to base rent, the Corporation is required to pay its pro rata share of real estate taxes and operating expenses in excess of the base year, defined by the lease as calendar year 2019.

Total rent expense of $2,628,569 and $3,106,604 for fiscal years 2019 and 2018, respectively, is reflected in corporate administration and other expenses on the accompanying combined statements of activities. The future minimum rental payments per fiscal year under this non-cancelable operating lease are as follows:

2020	$ 1,214,712
2021	2,104,263
2022	2,135,827
2023	2,167,865
2024	2,207,216
Thereafter	18,429,532
	$ 28,259,415

Incentives received at the inception of operating leases are recognized as a lease incentive obligation in the accompanying combined statements of financial position and amortized on a straight-line basis over the life of the lease.

Music Royalties

The Corporation is obligated to pay system-wide music royalties under several contractual agreements which expire on various dates from now until December 31, 2022. Music royalty expense of $9,039,923 and $9,193,589 for fiscal years 2019 and 2018, respectively, is reflected in other system support on the accompanying combined statements of activities. The future minimum music royalty payments per fiscal year under non-cancelable and cancelable contracts are as follows:

	Non-cancelable	Cancelable
2020	$ 580,206	$ 8,315,800
2021	20,206	8,315,800
2022	20,206	8,315,800
2023	20,206	-
	$ 640,824	$ 24,947,400

NOTE L - INCOME TAXES

Both the Corporation and Literary Classics, Inc. are exempt from federal income tax under IRC section 501(c)(3) and 170(b)(1)(A)(vi), though are subject to tax on income unrelated to their respective exempt purpose, unless that income is otherwise excluded by the Code. Both the Corporation and Literary Classics, Inc. have processes presently in place to ensure the maintenance of their tax-exempt status; to identify and report unrelated income; to determine the relevant filing and tax obligations in jurisdictions for which they have nexus; and to identify and evaluate other matters that may be considered tax positions. The tax years ending September 30, 2019, 2018, 2017 and 2016 are still open to audit for both federal and state purposes. The Corporation and Literary Classics, Inc. have determined that there are no material uncertain tax positions that require recognition or disclosure in the combined financial statements.

The Corporation and Literary Classics, Inc. follow 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.

NOTE M - SUBSEQUENT EVENTS

The Corporation evaluated its September 30, 2019 combined financial statements for subsequent events through March 5, 2020, the date the combined financial statements were available to be issued. The Corporation is not aware of any subsequent events which would require recognition or disclosure in the combined financial statements.