Corporation for Public Broadcasting and Affiliate

Combined Financial Statements and Report of Independent Certified Public Accountants

September 30, 2011 and 2010

Corporation for Public Broadcasting and Affiliate

CONTENTS

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Report of Independent Certified Public Accountants

Board of Directors
Corporation for Public Broadcasting and Affiliate

We have audited the accompanying combined statement of financial position the Corporation for Public Broadcasting and Affiliate (CPB) as of September 30, 2011, and the related statements of activities and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of CPB's management. Our responsibility is to express an opinion on these financial statements based on our audits. The combined financial statements of Corporation for Public Broadcasting and Affiliate, as of and for the year then ended September 30, 2010, were audited by other auditors. Those auditors expressed an unqualified opinion on those financial statements in their report dated December 23, 2010.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants 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 financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the CPB's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of CPB as of September 30, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2012 on our consideration of CPB's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of CPB's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Grant Thornton LLP

McLean, Virginia
January 17, 2012

Corporation for Public Broadcasting and Affiliate
Combined Statements of Financial Position

Year ended September 30,	2011	2010
Assets		
Cash and cash equivalents	$ 91,541,887	$ 63,086,556
Short-term investments	118,680,803	195,190,660
Receivables, net	11,316,266	10,249,956
Prepaid expenses and other	2,131,418	8,937,231
Property and equipment, net	1,103,341	1,586,491
Total Assets	$ 224,773,715	$ 279,050,894
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	$ 6,469,409	$ 5,154,252
Appropriated grants and contracts payable, net	155,030,490	173,986,823
Total Liabilities	161,499,899	179,141,075
Unrestricted Net Assets		
Designated	62,061,981	98,206,348
Investment in property and equipment	1,103,341	1,586,491
Literary Classics, Inc.	108,494	116,980
Total Unrestricted Net Assets	63,273,816	99,909,819
Total Liabilities and Net Assets	$ 224,773,715	$ 279,050,894

The accompanying notes are an integral part of these statements.

Corporation for Public Broadcasting and Affiliate

Combined Statements of Activities

Year ended September 30,	2011	2010
Changes in unrestricted net assets:		
Support and revenues:		
Federal appropriations:		
General	$ 429,140,000	$ 420,000,000
Radio Interconnection	—	25,000,000
Digital	5,988,000	36,000,000
Fiscal Stabilization	—	25,000,000
Investment income:		
Interest income	2,271,346	2,191,024
Realized/unrealized losses on securities	(349,335)	(229,128)
Department of Education – Ready to Learn	13,856,895	3,845,334
Royalties and other income, net	2,020,138	965,203
Grant and contract refunds	6,601,314	19,136,641
Total Revenue	459,528,358	531,909,074
Expenses		
Program services:		
New TV program development	77,690,940	85,467,052
Radio Programming:		
Radio Program Fund	5,557,696	7,148,149
National program production and acquisition grants	27,480,513	24,843,113
System Support:		
Television community service grants	216,481,231	209,554,178
Radio community service grants	62,422,180	61,163,462
Digital	46,408,944	30,376,442
Next Generation TV Interconnection	88,862	(254,224)
Radio Interconnection	243,920	25,197,886
Fiscal Stabilization	—	25,000,000
Department of Education – Ready to Learn	13,856,895	3,845,334
Other system support	24,895,777	31,898,314
	475,126,958	504,239,706
Corporate administration and other expenses	21,037,403	20,465,665
Total Expenses	496,164,361	524,705,371
Change in Net Assets	(36,636,003)	7,203,703
Net Assets, beginning of year	99,909,819	92,706,116
Net Assets, end of year	$ 63,273,816	$ 99,909,819

The accompanying notes are an integral part of these statements.

Corporation for Public Broadcasting and Affiliate

Combined Statements of Cash Flows

Year ended September 30,		2011		2010
Cash Flows from Operating Activities				
Change in net assets	$	(36,636,003)	$	7,203,703
Adjustments to reconcile change in net assets to				
net cash from operating activities:				
Depreciation and amortization		491,867		357,541
Provision for doubtful accounts		52,523		—
Realized losses on investments		326		—
Unrealized losses on investments		349,009		229,128
Interest earned but not received on discount notes		(32,449)		(262,778)
(Increase) decrease in assets:				
Receivables, net		(1,118,833)		13,819,234
Prepaid expenses		6,805,813		7,003,597
Increase (decrease) in liabilities:				
Accounts payable and accrued expenses		1,315,157		527,453
Appropriated grants and contracts payable		(18,956,333)		(50,855,804)
Net Cash Used in Operating Activities		(47,728,923)		(21,977,926)
Cash Flows from Investing Activities				
Equipment purchased		(8,717)		(461,906)
Short-term investments purchased		(609,708,230)		(369,682,500)
Maturities of short-term investments		685,901,201		399,882,195
Net Cash Provided by Investing Activities		76,184,254		29,737,789
Net Increase in Cash and Cash Equivalents		28,455,331		7,759,863
Cash and Cash Equivalents, beginning of year		63,086,556		55,326,693
Cash and Cash Equivalents, end of year	$	91,541,887	$	63,086,556

The accompanying notes are an integral part of these statements.

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 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. In addition, the Corporation is an organization that 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 future annual funding to the Corporation through fiscal year 2013. The amount approved for fiscal years 2012 and 2013 is $445,000,000 for each period.

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, which 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 revenues, expenses, gains and losses and net assets of the Corporation are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Corporation and changes therein are classified and reported as follows:

Unrestricted Net Assets—Net assets that are not subject to any donor-imposed stipulations. Unrestricted designated net assets represent Board-approved funds for specific purposes.

Temporarily Restricted Net Assets—Net assets subject to donor-imposed stipulations on the use of the assets that may be met either by the Corporation's actions and/or the passage of time. There were no temporarily restricted net assets at September 30, 2011 and 2010.

Permanently Restricted Net Assets—Net assets subject to donor-imposed stipulations that the principal be maintained permanently by the Corporation but permit the use of the investment earnings for general or specific purposes. There were no permanently restricted net assets at September 30, 2011 and 2010.

Cash and Cash Equivalents

The Corporation considers all highly liquid debt instruments purchased with an original maturity date of three months or less to be cash equivalents. Cash equivalents may include United States Treasury bills, federal agency securities, commercial paper, 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. These investments are used for the daily operations and mission of the Corporation. Short-term investments may include United States Treasury bills, federal agency securities, bank certificates of deposit and commercial paper.

Concentration of Risk

Financial instruments that potentially subject the Corporation to concentrations of credit risk are cash and cash equivalents and short-term investments. The Corporation places its cash and investments in various financial institutions that are federally insured under the Federal Depository Insurance Corporation Act (FDICA). At times these balances may exceed federally insured limits. The remaining balances in excess of FDICA insurance limits are collateralized. The Corporation has not experienced any losses on its cash and cash equivalents and investments to date.

Receivables

The Corporation's receivables consist primarily of returned grants, accrued interest and receivables from the U.S. Department of Education. The specific identification method is used to determine the uncollectible amounts. The Corporation records an allowance for doubtful accounts on its outstanding receivables based on specific identification of uncollectible accounts. Allowance for doubtful accounts as of September 30, 2011 and 2010 was $128,799 and $76,276, respectively.

Property and Equipment

The Corporation capitalizes property and equipment at cost and depreciates these assets using the straight-line method over their useful lives, generally three to fifteen years. Leasehold improvements are amortized over the remaining term of the lease, or the useful life of the improvement, whichever is shorter. The Corporation capitalizes property and equipment with an original cost of $1,500 or more.

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.

Grants awarded to the Corporation are considered to be unrestricted unless specifically restricted by the donor. The Corporation has adopted a policy of recording donor-restricted grants as unrestricted revenue when the restrictions are met in the same reporting period. 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.

Grant revenue and expenses from the Department of Education are recognized on a cost-reimbursable basis and are based on when activity related to the programs occurs.

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

Unconditional grants and contracts awarded by the Corporation from its general federal appropriation are recognized as expenses and payables when the applicable agreements are executed. All unconditional grants that are expected to be paid beyond one year are discounted to their present values.

Grant and contract refunds are recorded as unrestricted revenue when the amount of refund due the Corporation becomes known, normally when a final accounting by the grantee is submitted. 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. Unexpended balances of grants awarded by the Corporation are required to be returned to the Corporation by grantees.

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 disclosures of contingent assets and liabilities at the date of the financial statements. They also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

B SHORT-TERM INVESTMENTS

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

	2011	2010
United States Treasury securities	$ —	$ 74,984,750
Federal agency discount notes and debentures	73,727,348	110,205,910
Commercial paper	34,953,455	—
Bank certificates of deposit	10,000,000	10,000,000
	$ 118,680,803	$ 195,190,660

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 determine 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, 2011 and 2010:

2011	Level 1	Level 2	Level 3	Total
Federal agency discount notes and debentures	$ 39,937,600	$ 33,789,748	$ —	$ 73,727,348
Commercial paper	—	34,953,455	—	34,953,455
Certificates of deposit	10,000,000	—	—	10,000,000
	$ 49,937,600	$ 68,743,203	$ —	$ 118,680,803

2010	Level 1	Level 2	Level 3	Total
United States Treasury securities	$ 74,984,750	$ —	$ —	$ 74,984,750
Federal agency discount notes and debentures	110,205,910	—	—	110,205,910
Certificates of deposit	10,000,000	—	—	10,000,000
	$ 195,190,660	$ —	$ —	$ 195,190,660

C RECEIVABLES

Receivables consist of the following at September 30:

	2011	2010
Grants and grant refunds receivable	$ 3,162,345	$ 4,083,145
U.S. Department of Education receivable	7,900,998	6,111,147
Other	381,722	131,940
	11,445,065	10,249,956
Less: allowance for doubtful accounts	(128,799)	(76,276)
Receivables, net	11,316,266	10,249,956
Current receivables	9,961,182	7,824,055
Noncurrent receivables	1,355,084	2,425,901
Receivables, net	$ 11,316,266	$ 10,249,956

D PROPERTY AND EQUIPMENT, NET

Property and equipment consists of the following at September 30:

	2011	2010
Furniture and equipment	$ 2,263,020	$ 2,257,420
Software	1,671,688	1,677,288
Leasehold improvements	703,222	694,505
	4,637,930	4,629,213
Less: accumulated depreciation and amortization	(3,534,589)	(3,042,722)
Total property and equipment, net	$ 1,103,341	$ 1,586,491

Depreciation and amortization expense was $491,867 and $357,541 for the years ended September 30, 2011 and 2010, respectively.

E ACCOUNTS PAYABLE AND ACCRUED EXPENSES

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

		2011		2010
Trade accounts payable	$	285,935	$	569,058
Accrued personnel and related costs		5,074,875		3,890,023
Deferred rent liability		222,393		69,791
Other accrued expenses		886,206		625,380
Total accounts payable and accrued expenses	$	6,469,409	$	5,154,252

F APPROPRIATED GRANTS AND CONTRACTS PAYABLE

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

		2011		2010
Amount payable				
Within one year	$	102,434,427	$	128,461,801
In one to five years		53,010,774		46,121,963
Total appropriated grants and contracts payable		155,445,201		174,583,764
Less: Unamortized discount		(414,711)		(596,941)
Appropriated grants and contracts payable, net	$	155,030,490	$	173,986,823

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 0.13% to 0.42% for 2011 and from 0.27% to 0.64% for 2010.

G UNRESTRICTED-DESIGNATED NET ASSETS

Unrestricted net assets as of September 30, which have been designated by the Board for specific purposes, are summarized as follows:

	2011	2010
Project funding commitments		
Television support	$ 15,192,693	$ 20,433,538
Radio support	4,320,854	3,653,654
Digital	31,209,014	66,266,597
Next generation TV interconnection system	3,959,435	3,872,265
Radio interconnection system	—	80,206
Other system support and corporate administration	7,379,985	3,900,088
Total designated net assets	$ 62,061,981	$ 98,206,348

H PROGRAM AND SUPPORTING SERVICES

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

- New TV Program Development 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 supporting public television and radio stations in their efforts to convert their broadcasts to a digital transmission method.
- Next Generation TV Interconnection provides funding for the development and implementation of a new interconnection system to be used by public television stations to transmit and receive programming feeds.
- Radio Interconnection provides funding for the development and implementation of a new interconnection system to be used by public radio stations to transmit and receive programming feeds.

- Fiscal Stabilization is a special appropriation from Congress to assist public broadcasting stations affected by unfavorable economic conditions.
- Ready-to-Learn is a grant program funded by the U.S. Department of Education for research and the production of educational programming targeted towards children.
- 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 includes 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 appropriation. The proportion of corporate administrative and other expenses to the general appropriation was 4.9% and 4.9%, respectively, for 2011 and 2010.

Total corporate administration expense for the fiscal years ended September 30 is summarized as follows:

	2011	2010
Personnel and related costs	$ 15,373,438	$ 14,509,817
Consultants and professional services	914,158	820,504
Facility and related costs	3,231,941	3,381,605
Travel and related costs	858,096	1,057,271
Other	406,954	577,978
Total corporate administration expense	20,784,587	20,347,175
Depreciation and amortization	252,816	118,490
Total corporate administration and other expenses	$ 21,037,403	$ 20,465,665

I PENSION PLAN

The Corporation has a defined contribution pension plan covering substantially all of its employees. Contributions are made as the costs are incurred and are determined by varying percentages of employees' salaries. The total pension expense for fiscal years 2011 and 2010 was approximately $1,804,000 and $1,746,000, respectively.

J LEASE COMMITMENTS

The Corporation is obligated under a lease agreement for office space through April 2020. Rent expense of approximately $2,714,000 and $2,673,000 for fiscal years 2011 and 2010, respectively, is reflected in corporate administration and other expenses in the accompanying combined statements of activities. The future minimum, straight-line rental payments under this non-cancelable operating lease are as follows:

2012	$	2,434,455
2013		2,470,972
2014		2,508,037
2015		2,545,657
2016		2,583,842
Thereafter		9,576,200
	$	22,119,163

K INCOME TAXES

Effective October 1, 2009, the Corporation adopted the authoritative guidance relating to accounting for uncertainty in income taxes included in ASC 740 Income Taxes. These provisions provide consistent guidance for the accounting for uncertainty in income taxes recognized in a corporation's financial statements and prescribe a threshold of "more likely than not" for recognition and derecognition of tax positions taken or expected to be taken in a tax return. The Corporation performed an evaluation of uncertain tax positions for the year ended September 30, 2011 and 2010, and determined that there were no matters that would require recognition in the financial statements or which may have any effect on its tax-exempt status.

L SUBSEQUENT EVENTS

The Corporation evaluated subsequent events through January 17, 2012, which is the date the combined financial statements were available to be issued. There were no events noted that required adjustment to or disclosure in these combined financial statements.

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Report of Independent Certified Public Accountants on Internal Control over Financial Reporting and on Compliance and Other Matters

Board of Directors
Corporation for Public Broadcasting and Affiliate

We have audited the combined financial statements of Corporation for Public Broadcasting and Affiliate (CPB) as of and for the year ended September 30, 2011 and have issued our report thereon dated January 17, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered CPB's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of CPB's internal control over financial reporting. Accordingly, we express no such opinion.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of CPB's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control would not necessarily identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in CPB's internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that were not identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether CPB's combined financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

This report is intended solely for the information and use of management, Board of Directors, the Audit Committee, others within CPB, federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Grant Thornton LLP

McLean, Virginia
January 17, 2012