Grant Thornton

Combined Financial Statements and Report of Independent Certified Public Accountants

Corporation for Public Broadcasting and Affiliate

September 30, 2013 and 2012

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

Report on the financial statements

We have audited the accompanying combined financial statements of Corporation for Public Broadcasting and Affiliate (CPB), which comprise the combined statements of financial position as of September 30, 2013 and 2012, and the related combined 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 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 CPB'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 CPB'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, 2013 and 2012, and its changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report, dated January 17, 2014, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CPB's internal control over financial reporting and compliance.

Grant Thornton LLP

McLean, Virginia
January 17, 2014

Corporation for Public Broadcasting and Affiliate

Combined Statements of Financial Position

September 30,		**2013**		**2012**
Assets				
Cash and cash equivalents	$	127,495,249	$	70,086,702
Short-term investments		30,000,000		116,080,292
Receivables, net		10,004,833		12,902,677
Prepaid expenses and other		435,274		2,335,232
Property and equipment, net		520,630		725,446
Total Assets	$	168,455,986	$	202,130,349
Liabilities and Net Assets				
Liabilities				
Accounts payable and accrued expenses	$	6,875,917	$	7,217,512
Appropriated grants and contracts payable, net		90,593,307		105,003,279
Total Liabilities		97,469,224		112,220,791
Unrestricted Net Assets				
Designated		70,365,346		89,080,266
Investment in property and equipment		520,630		725,446
Literary Classics, Inc.		100,786		103,846
Total Unrestricted Net Assets		70,986,762		89,909,558
Total Liabilities and Net Assets	$	168,455,986	$	202,130,349

The accompanying notes are an integral part of these statements.

Corporation for Public Broadcasting and Affiliate

Combined Statements of Activities

September 30,	2013	2012
Changes in unrestricted net assets:		
Support and revenues:		
Federal appropriations:		
General	$ 421,860,000	$ 444,158,950
Investment income:		
Interest income	1,026,351	1,673,156
Realized/unrealized (loss) gain on securities	(129,081)	240,795
Department of Education – Ready to Learn	15,687,037	13,979,666
Royalties and other income, net	3,149,130	701,260
Grant and contract refunds	4,614,955	12,699,316
Total Revenue	446,208,392	473,453,143
Expenses		
Program services:		
New TV program development	84,371,441	65,772,305
Radio Programming:		
Radio Program Fund	5,221,012	8,136,493
National program production and acquisition grants	22,122,886	22,476,805
System Support:		
Television community service grants	209,949,738	214,691,929
Radio community service grants	66,916,049	68,036,001
Digital	19,403,684	11,536,282
Next Generation TV Interconnection	134,920	114,631
Radio Interconnection	—	11,290
Department of Education – Ready to Learn grant	15,687,037	13,979,666
Other system support	20,411,299	20,927,659
	444,218,066	425,683,061
Corporate administration and other expenses	20,913,122	21,134,340
Total Expenses	465,131,188	446,817,401
Change in Net Assets	(18,922,796)	26,635,742
Net Assets, beginning of year	89,909,558	63,273,816
Net Assets, end of year	$ 70,986,762	$ 89,909,558

The accompanying notes are an integral part of these statements.

Corporation for Public Broadcasting and Affiliate

Combined Statements of Cash Flows

September 30,		2013		2012
Cash Flows from Operating Activities				
Change in net assets	$	(18,922,796)	$	26,635,742
Adjustments to reconcile change in net assets to net cash used in operating activities:				
Depreciation and amortization		225,737		402,182
Provision for doubtful accounts		58,138		—
Realized loss (gain) on investments		4,948		(13,036)
Unrealized loss (gain) on investments		124,133		(227,759)
Interest earned but not received on discount notes		—		(6,413)
(Increase) decrease in assets:				
Receivables, net		2,839,706		(1,586,411)
Prepaid expenses		1,899,958		(203,814)
(Decrease) increase in liabilities:				
Accounts payable and accrued expenses		(341,595)		748,103
Appropriated grants and contracts payable		(14,409,972)		(50,027,211)
Net Cash Used in Operating Activities		(28,521,743)		(24,278,617)
Cash Flows from Investing Activities				
Equipment purchased		(20,921)		(24,287)
Short-term investments purchased		(169,909,325)		(598,870,000)
Maturities of short-term investments		255,860,536		601,717,719
Net Cash Provided by Investing Activities		85,930,290		2,823,432
Net Increase (Decrease) in Cash and Cash Equivalents		57,408,547		(21,455,185)
Cash and Cash Equivalents, beginning of year		70,086,702		91,541,887
Cash and Cash Equivalents, end of year	$	127,495,249	$	70,086,702

The accompanying notes are an integral part of these 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 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 2014. Annual funding for 2013 and 2014 was $445,000,000 for both years. For 2013, the Budget Control Act of 2011 (PL 112-40 and PL 113-6) stipulated a rescission of 5.2% resulting in a decrease of the fiscal year 2013 appropriation of $23,140,000 from the previously approved $445,000,000.

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. The 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 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, 2013 and 2012.

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, 2013 and 2012.

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.

NOTE A—ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 for years ending September 30, 2013 and 2012 was $186,937 and $128,799, 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.

NOTE A—ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Revenue and Expense Recognition—Continued

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 to 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.

NOTE B—SHORT-TERM INVESTMENTS

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

	2013	2012
Federal agency discount notes and debentures	$ —	$ 60,105,375
Commercial paper	10,000,000	32,974,917
Bank certificates of deposit	20,000,000	23,000,000
	$ 30,000,000	$ 116,080,292

NOTE B—SHORT-TERM INVESTMENTS—Continued

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.

NOTE B—SHORT-TERM INVESTMENTS—Continued

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, 2013 and 2012:

	2013			
	Level 1	**Level 2**	**Level 3**	**Total**
Federal agency discount notes and debentures	$ —	$ —	$ —	$ —
Commercial paper	—	10,000,000	—	10,000,000
Certificates of deposit	—	20,000,000	—	20,000,000
	$ —	$ 30,000,000	$ —	$ 30,000,000

	2012			
	Level 1	**Level 2**	**Level 3**	**Total**
Federal agency discount notes and debentures	$ —	$ 60,105,375	$ —	$ 60,105,375
Commercial paper	—	32,974,917	—	32,974,917
Certificates of deposit	—	23,000,000	—	23,000,000
	$ —	$ 116,080,292	$ —	$ 116,080,292

NOTE C—RECEIVABLES

Receivables consist of the following at September 30:

	2013	2012
Grants and grant refunds receivable	$ 3,741,893	$ 2,798,770
U.S. Department of Education receivable	6,296,614	10,132,079
Other	153,263	100,627
Receivables	10,191,770	13,031,476
Less Allowance for doubtful accounts	(186,937)	(128,799)
Receivables	10,004,833	12,902,677
Current receivables	7,560,628	11,336,613
Noncurrent receivables	2,444,205	1,566,064
Receivables, net	$ 10,004,833	$ 12,902,677

NOTE D—PROPERTY AND EQUIPMENT, NET

Property and equipment consists of the following at September 30:

	2013	2012
Furniture and equipment	$ 1,705,356	$ 2,275,332
Software	1,671,688	1,671,688
Leasehold improvements	736,120	715,199
	4,113,164	4,662,217
Less: accumulated depreciation and amortization	(3,592,532)	(3,936,771)
Total property and equipment, net	$ 520,630	$ 725,446

Depreciation and amortization expense was $225,737 and $402,182 for the years ended September 30, 2013 and 2012, respectively.

NOTE E—ACCOUNTS PAYABLE AND ACCRUED EXPENSES

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

	2013	2012
Trade accounts payable	$ 839,425	$ 850,192
Accrued personnel and related costs	5,465,452	5,683,085
Deferred rent liability	419,125	339,018
Other accrued expenses	151,915	345,217
Total accounts payable and accrued expenses	$ 6,875,917	$ 7,217,512

NOTE F—APPROPRIATED GRANTS AND CONTRACTS PAYABLE

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

	2013	2012
Amount payable		
Within one year	$ 67,235,756	$ 69,203,702
In one to five years	23,539,553	36,137,069
Total appropriated grants and contracts payable	90,775,309	105,340,771
Less: Unamortized discount	(182,002)	(337,492)
Appropriated grants and contracts payable, net	$ 90,593,307	$ 105,003,279

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 0.10% to 0.63% for 2013 and from 0.17% to 0.31% for 2012.

NOTE 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:

	2013	2012
Project funding commitments		
Television support	$ 31,667,745	$ 40,993,526
Radio support	5,805,954	5,235,766
Digital	4,636,515	23,360,237
Next generation TV interconnection system	3,918,552	3,993,212
Radio interconnection system	85,138	58,169
Other system support and corporate administration	24,251,436	15,439,356
Total designated net assets	$ 70,365,340	$ 89,080,266

NOTE 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.

NOTE H—PROGRAM AND SUPPORTING SERVICES—Continued

- *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.

- *Ready-to-Learn* is a five-year 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 4.8% and 4.9%, respectively, for 2013 and 2012.

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

	2013	2012
Personnel and related costs	$ 15,521,408	$ 15,481,086
Consultants and professional services	728,171	913,737
Facility and related costs	3,712,368	3,358,170
Travel and related costs	476,650	837,947
Other	339,024	375,965
Total corporate administration expense	20,777,622	20,966,905
Depreciation and amortization	135,500	167,435
Total corporate administration and other expenses	$ 20,913,122	$ 21,134,340

NOTE I—BENEFIT PLAN

The Corporation has a defined contribution benefit 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 2013 and 2012 was approximately $1,926,252 and $1,904,422, respectively.

NOTE J—LEASE COMMITMENTS

The Corporation is obligated under a lease agreement for office space through April 2020. Rent expense of approximately $3,092,233 and $2,785,786 for fiscal years 2013 and 2012, respectively, is reflected in corporate administration and other expenses in the accompanying combined statements of activities. The future minimum, rental payments under this non-cancelable operating lease are as follows:

2014	$ 2,508,037
2015	2,545,657
2016	2,583,842
2017	2,622,600
2018	2,661,939
Thereafter	4,291,662
	$ 17,213,737

NOTE K—INCOME TAXES

The Corporation adopted the provisions of ASC 740-10, *Accounting for Uncertainty in Income Taxes*, on October 1, 2009. Under ASC 740-10, an organization must recognize the tax benefit associated with tax positions taken for tax return purposes when it is more-likely-than-not that the position will be sustained. The implementation of ASC 740-10 had no impact on the Corporation's combined financial statements. The Corporation's management believes it has no material uncertain tax positions and; accordingly, it will not recognize any liability for unrecognized tax benefits. For the year ended September 30, 2013, the Corporation did not recognize any interest or penalties.

The tax years ended September 30, 2010, 2011, and 2012, remain open to examination by the taxing jurisdictions to which the Corporation is subject, and they have not been extended beyond the applicable statute of limitations.

NOTE L—SUBSEQUENT EVENTS

CPB evaluated its September 30, 2013 financial statements for subsequent events through January 17, 2014, the date the financial statements were available to be issued. CPB is not aware of any subsequent events which would require recognition or disclosure in the financial statements.