Grant Thornton

Combined Financial Statements and Report of Independent Certified Public Accountants

Corporation for Public Broadcasting and Affiliate

September 30, 2014 and 2013

Corporation for Public Broadcasting and Affiliate

Contents

Audit – Tax – Advisory

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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 "Entity"), which comprise the combined statements of financial position as of September 30, 2014 and 2013, and the related combined statements of activities 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 Entity'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 Entity'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, 2014 and 2013, 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.

Other reporting required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report, dated February 3, 2015, on our consideration of the Entity'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 the Entity's internal control over financial reporting and compliance.

Grant Thornton LLP

McLean, Virginia
February 3, 2015

Corporation for Public Broadcasting and Affiliate

Combined Statement of Financial Position

September 30,		2014		2013
Assets				
Cash and cash equivalents	$	87,863,655	$	127,495,249
Short-term investments		26,906,166		10,000,000
Investments-other		36,000,000		20,000,000
Receivables, net		12,391,731		10,004,833
Prepaid expenses and other		502,911		435,274
Property and equipment, net		362,346		520,630
Total Assets	$	164,026,809	$	168,455,986
Liabilities and Net Assets				
Liabilities				
Accounts payable and accrued expenses	$	6,494,189	$	6,875,917
Appropriated grants and contracts payable, net		84,783,172		90,593,307
Total Liabilities		91,277,361		97,469,224
Unrestricted Net Assets				
Designated		72,290,153		70,365,346
Investment in property and equipment		362,346		520,630
Literary Classics, Inc.		96,949		100,786
Total Unrestricted Net Assets		72,749,448		70,986,762
Total Liabilities and Net Assets	$	164,026,809	$	168,455,986

The accompanying notes are an integral part of these statements.

Corporation for Public Broadcasting and Affiliate

Combined Statement of Activities

September 30,	**2014**	**2013**
Changes in unrestricted net assets:		
Support and revenues:		
Federal appropriations:		
General	$ 445,000,000	$ 421,860,000
Investment income:		
Interest income	525,839	1,026,351
Realized/unrealized gain (loss) on securities	16,667	(129,081)
Department of Education – Ready to Learn Program	13,872,694	15,687,037
Royalties and other income, net	829,618	3,149,130
Grant and contract refunds	3,397,752	4,614,955
Total Revenue	463,642,570	446,208,392
Expenses		
Program services:		
New TV program development	75,461,785	84,371,441
Radio Programming:		
Radio Program Fund	6,019,021	5,221,012
National program production and acquisition grants	22,637,991	22,122,886
System Support:		
Television community service grants	217,617,621	209,949,738
Radio community service grants	68,575,834	66,916,049
Digital	2,674,032	19,403,684
Next Generation TV Interconnection	—	134,920
Department of Education – Ready to Learn Program	13,872,694	15,687,037
Other system support	34,835,441	20,411,299
	441,694,419	444,218,066
Corporate administration and other expenses	20,185,465	20,913,122
Total Expenses	461,879,884	465,131,188
Change in Net Assets	1,762,686	(18,922,796)
Net Assets, beginning of year	70,986,762	89,909,558
Net Assets, end of year	$ 72,749,448	$ 70,986,762

The accompanying notes are an integral part of these statements.

Corporation for Public Broadcasting and Affiliate

Combined Statement of Cash Flows

September 30,		2014		2013
Cash Flows from Operating Activities				
Change in net assets	$	1,762,686	$	(18,922,796)
Adjustments to reconcile change in net assets to net cash from operating activities:				
Depreciation and amortization		193,153		225,737
Provision for doubtful accounts		—		58,138
Realized (gain) loss on investments		(16,667)		4,948
Unrealized loss on investments		—		124,133
(Increase) decrease in assets:				
Receivables, net		(2,386,898)		2,839,706
Prepaid expenses		(67,638)		1,899,958
Increase (decrease) in liabilities:				
Accounts payable and accrued expenses		(381,728)		(341,595)
Appropriated grants and contracts payable		(5,810,135)		(14,409,972)
Net Cash Used in Operating Activities		(6,707,227)		(28,521,743)
Cash Flows from Investing Activities				
Equipment purchased		(34,868)		(20,921)
Short-term investments purchased		(471,383,548)		(169,909,325)
Maturities of short-term investments		438,494,049		255,860,536
Net Cash (Used in) Provided by Investing Activities		(32,924,367)		85,930,290
Net (Decrease) Increase in Cash and Cash Equivalents		(39,631,594)		57,408,547
Cash and Cash Equivalents, beginning of year		127,495,249		70,086,702
Cash and Cash Equivalents, end of year	$	87,863,655	$	127,495,249

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 advance annual appropriations to the Corporation through fiscal year 2016. The initial annual advance appropriations for 2013 through 2016 were $445,000,000 in each year. For 2013 the Corporation's appropriation was reduced to $421,860,000 by a 5.20% rescission in the Budget Control Act of 2011 (PL 112-40 and PL 113-6). The Corporation received the full advance appropriation in 2014. For 2015 the advance appropriation was reduced by 0.06% percent as a result of H.J. Res. 124-2 resulting in an appropriation of $444,753,470. This appropriation was approved in the Consolidated and Further Continuing Appropriations Act, 2015 PL 113-235.

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, 2014 and 2013.

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, 2014 and 2013.

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

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.

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.

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.

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 unrestricted 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 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, 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*. 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, and commercial paper.

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

Investments-other

The Corporation carries its investments-other at carrying value. These investments are used for the daily operations and mission of the Corporation. Investments-other primarily include certificates of deposits from financial institutions.

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 Corporation has not experienced any losses on its cash and cash equivalents and investments to date. As of September 30, 2014 and 2013, there was $13,247,699 and $36,381,241, respectively, in funds held in excess of the FDIC limit.

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, 2014 and 2013 was $186,937 for both years.

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.

NOTE B— SHORT-TERM INVESTMENTS

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

	2014	2013
Federal agency discount notes and debentures	$ 13,906,166	$ —
Commercial paper	13,000,000	10,000,000
	$ 26,906,166	$ 10,000,000

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.

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, 2014 and 2013:

	2014			
	Level 1	**Level 2**	**Level 3**	**Total**
Federal agency discount notes and debentures	$ —	$ 13,906,166	$ —	$ 13,906,166
Commercial paper	—	13,000,000	—	13,000,000
	$ —	$ 26,906,166	$ —	$ 26,906,166

NOTE B—SHORT-TERM INVESTMENTS—Continued

	2013			
	Level 1	Level 2	Level 3	Total
Commercial paper	$ —	$ 10,000,000	$ —	$ 10,000,000
	$ —	$ 10,000,000	$ —	$ 10,000,000

NOTE C—RECEIVABLES

Receivables consist of the following at September 30:

	2014	2013
Grants and grant refunds receivable	$ 3,753,054	$ 3,741,893
U.S. Department of Education receivable	8,761,130	6,296,614
Other	64,484	153,263
Receivables, gross	12,578,668	10,191,770
Less: allowance for doubtful accounts	(186,937)	(186,937)
Receivables, net	12,391,731	10,004,833
Current receivables	11,060,971	7,560,628
Noncurrent receivables	1,330,760	2,444,205
Receivables, net	$ 12,391,731	$ 10,004,833

NOTE D—PROPERTY AND EQUIPMENT, NET

Property and equipment consists of the following at September 30:

	2014	2013
Furniture and equipment	$ 1,740,225	$ 1,705,356
Software	1,671,688	1,671,688
Leasehold improvements	736,120	736,120
	4,148,033	4,113,164
Less: accumulated depreciation and amortization	(3,785,687)	(3,592,534)
Total property and equipment, net	$ 362,346	$ 520,630

Depreciation and amortization expense was $193,153 and $225,737 for the years ended September 30, 2014 and 2013, respectively.

NOTE E—ACCOUNTS PAYABLE AND ACCRUED EXPENSES

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

	2014	2013
Trade accounts payable	$ 208,225	$ 839,425
Accrued personnel and related costs	5,641,405	5,465,452
Deferred rent liability	462,170	419,125
Other accrued expenses	182,389	151,915
Total accounts payable and accrued expenses	$ 6,494,189	$ 6,875,917

NOTE F—APPROPRIATED GRANTS AND CONTRACTS PAYABLE

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

	2014	2013
Amount payable		
Within one year	$ 62,464,565	$ 67,235,756
In one to five years	22,553,947	23,539,553
Total appropriated grants and contracts payable	85,018,512	90,775,309
Less: Unamortized discount	(235,340)	(182,002)
Appropriated grants and contracts payable, net	$ 84,783,172	$ 90,593,307

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 1.07% for 2014 and from 0.10% to 0.63% for 2013.

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:

	2014	2013
Project funding commitments		
Television support	$ 38,244,662	$ 31,667,745
Radio support	8,293,997	5,805,954
Digital	2,718,155	4,636,515
Next generation TV interconnection system	3,935,095	3,918,558
Radio interconnection system	102,536	85,138
Other system support and corporate administration	18,995,708	24,251,436
Total designated net assets	$ 72,290,153	$ 70,365,346

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.

- *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 Program* is a five-year cooperative agreement funded by the U.S. Department of Education for research and the production of educational programming targeted towards children. The current grant term extends from September 29, 2010 to September 29, 2015.

- *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 4.5% and 4.8%, respectively, for 2014 and 2013.

NOTE H—PROGRAM AND SUPPORTING SERVICES—Continued

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

	2014	2013
Personnel and related costs	$ 14,618,668	$ 15,521,408
Consultants and professional services	654,038	728,171
Facility and related costs	3,861,117	3,712,368
Travel and related costs	655,513	476,650
Other	293,212	339,024
Total corporate administration expense	20,082,548	20,777,622
Depreciation and amortization	102,917	135,500
Total corporate administration and other expenses	$ 20,185,465	$ 20,913,122

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 2014 and 2013 was approximately $1,709,189 and $1,926,252, respectively.

NOTE J—COMMITMENTS

Lease Commitments

The Corporation is obligated under a lease agreement for office space through April 2020. Rent expense totaled $3,056,452 and $3,092,233 for fiscal years 2014 and 2013, 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:

2015	$ 2,545,657
2016	2,583,842
2017	2,622,600
2018	2,661,939
2019	2,701,868
Thereafter	1,589,795
	$ 14,705,699

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, 2017. Music royalty expense totaled $8,432,178 and $8,399,940 was recognized for fiscal years 2014 and 2013, respectively. Music royalty expense is reflected in the Other system support and the Digital program classifications in the accompanying combined statements of activities. The future minimum, music royalty payments under non-cancelable contracts are as follows:

2015	$ 8,114,281
2016	7,634,281
2017	7,634,281
2018	19,281
	$ 23,402,124

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, 2014, the Corporation did not recognize any interest or penalties.

The tax years ended September 30, 2011, 2012, and 2013, 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

The Corporation evaluated its September 30, 2014 financial statements for subsequent events through February 3, 2015, the date the financial statements were available to be issued. The Corporation is not aware of any subsequent events which would require recognition or disclosure in the financial statements.