Grant Thornton

Combined Financial Statements and Report of Independent Certified Public Accountants

Corporation for Public Broadcasting and Affiliate

September 30, 2015 and 2014

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, 2015 and 2014, 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, 2015 and 2014, 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 4, 2016, 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 4, 2016

Corporation for Public Broadcasting and Affiliate

Combined Statements of Financial Position

September 30,		2015		2014
Assets				
Cash and cash equivalents	$	66,699,298	$	87,863,655
Short-term investments		68,613,765		26,906,166
Investments-other		10,000,000		36,000,000
Receivables, net		10,185,531		12,391,731
Prepaid expenses and other		527,431		502,911
Property and equipment, net		529,171		362,346
Total Assets	$	156,555,196	$	164,026,809
Liabilities and Net Assets				
Liabilities				
Accounts payable and accrued expenses	$	6,471,075	$	6,494,189
Appropriated grants and contracts payable, net		88,429,263		84,783,172
Total Liabilities		94,900,338		91,277,361
Unrestricted Net Assets				
Designated		61,031,806		72,290,153
Investment in property and equipment		529,171		362,346
Literary Classics, Inc.		93,881		96,949
Total Unrestricted Net Assets		61,654,858		72,749,448
Total Liabilities and Net Assets	$	156,555,196	$	164,026,809

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

Corporation for Public Broadcasting and Affiliate

Combined Statements of Activities

September 30,		2015		2014
Revenue:				
Federal appropriations:				
General	$	444,753,470	$	445,000,000
Investment income:				
Interest income		585,706		525,839
Realized/unrealized gain on securities		—		16,667
Department of Education – Ready to Learn		12,966,379		13,872,694
Royalties and other income, net		915,565		829,618
Grant and contract refunds		2,193,509		3,397,752
Total Revenue		461,414,629		463,642,570
Expenses				
Program services:				
Television programming		78,690,143		75,461,785
Radio programming:				
Radio Program Fund		6,918,294		6,019,021
National program production and acquisition grants		23,635,176		22,637,991
System support:				
Television community service grants		229,795,677		217,617,621
Radio community service grants		70,196,746		68,575,834
Digital		1,074,505		2,674,032
Radio interconnection		116,931		—
Department of Education – Ready to Learn		12,966,379		13,872,694
Other system support		27,880,022		34,835,441
		451,273,873		441,694,419
Corporate administration and other expenses		21,235,346		20,185,465
Total Expenses		472,509,219		461,879,884
Changes in Net Assets		(11,094,590)		1,762,686
Net Assets, beginning of year		72,749,448		70,986,762
Net Assets, end of year	$	61,654,858	$	72,749,448

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

Corporation for Public Broadcasting and Affiliate

Combined Statements of Cash Flows

September 30,		2015		2014
Cash Flows from Operating Activities				
Change in net assets	$	(11,094,590)	$	1,762,686
Adjustments to reconcile change in net assets to net cash from operating activities:				
Depreciation and amortization		118,824		193,153
Realized gain on investments		—		(16,667)
(Increase) decrease in assets:				
Receivables, net		2,206,200		(2,386,898)
Prepaid expenses		(24,520)		(67,638)
Increase (decrease) in liabilities:				
Accounts payable and accrued expenses		(23,114)		(381,728)
Appropriated grants and contracts payable		3,646,091		(5,810,135)
Net Cash Used in Operating Activities		(5,171,109)		(6,707,227)
Cash Flows from Investing Activities				
Equipment purchased		(285,649)		(34,868)
Investments purchased		(316,301,835)		(471,383,548)
Maturities of investments		300,594,236		438,494,049
Net Cash Used in Investing Activities		(15,993,248)		(32,924,367)
Net Decrease in Cash and Cash Equivalents		(21,164,357)		(39,631,594)
Cash and Cash Equivalents, beginning of year		87,863,655		127,495,249
Cash and Cash Equivalents, end of year	$	66,699,298	$	87,863,655

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 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 2017. The initial annual advance appropriations for fiscal years 2014 through 2017 were $445,000,000 in each year. The Corporation received the full advance appropriation in fiscal year 2014. For fiscal year 2015, the advance appropriation was reduced by 0.0554% 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. For 2016, the advance appropriation was reduced by 0.2108% as a result of HR 719, resulting in an appropriation of $444,061,940. This appropriation was approved in the Continuing Appropriations Act, 2016 PL 114-53.

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 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, 2015 and 2014.

Permanently Restricted Net Assets—Net assets subject to donor-imposed stipulations that the principal be maintained permanently but permit the use of the investment earnings for either general or specific purposes. There were no permanently restricted net assets at September 30, 2015 and 2014.

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 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.

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 primarily 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 more than one year from the balance sheet date 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 of three months or less 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.

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*. Short-term investments may include United States Treasury bills, federal agency securities, 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, which approximates fair value.

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, 2015, the Corporation's cash balance exceeded the current insured amount under FDIC by approximately $30,884,443. The Corporation holds United States Treasury bills as well as 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 returned grants, 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 life of the improvement, whichever is shorter.

Reclassifications

Certain prior year balances have been reclassified to conform to the current year presentation.

NOTE B—SHORT-TERM INVESTMENTS

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

	2015	2014
Federal agency discount notes and debentures	$ 68,613,765	$ 13,906,166
Commercial paper	—	13,000,000
	$ 68,613,765	$ 26,906,166

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, 2015 and 2014:

	2015			
	Level 1	Level 2	Level 3	Total
Federal agency discount notes and debentures	$ —	$ 68,613,765	$ —	$ 68,613,765
	$ —	$ 68,613,765	$ —	$ 68,613,765

	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 C—RECEIVABLES

Receivables consist of the following at September 30:

	2015	2014
Grants and grant refunds receivable	$ 2,162,697	$ 3,753,054
U.S. Department of Education receivable	8,038,046	8,761,130
Other	171,725	64,484
Receivables, gross	10,372,468	12,578,668
Less: allowance for doubtful accounts	(186,937)	(186,937)
Receivables, net	10,185,531	12,391,731
Current receivables	9,885,161	11,247,908
Noncurrent receivables	300,370	1,143,823
Receivables, net	$ 10,185,531	$ 12,391,731

NOTE D—PROPERTY AND EQUIPMENT, NET

Property and equipment consists of the following at September 30:

		2015		2014
Furniture and equipment	$	1,797,148	$	1,740,225
Software		1,671,688		1,671,688
Leasehold improvements		736,120		736,120
Construction in progress		228,727		—
		4,433,683		4,148,033
Less: accumulated depreciation and amortization		(3,904,512)		(3,785,687)
Total property and equipment, net	$	529,171	$	362,346

Depreciation and amortization expense was $118,824 and $193,153 for the years ended September 30, 2015 and 2014, respectively.

NOTE E—ACCOUNTS PAYABLE AND ACCRUED EXPENSES

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

		2015		2014
Trade accounts payable	$	276,183	$	208,225
Accrued personnel and related costs		5,727,299		5,679,567
Deferred rent liability		467,593		462,170
Other accrued expenses		—		144,227
Total accounts payable and accrued expenses	$	6,471,075	$	6,494,189

NOTE F—APPROPRIATED GRANTS AND CONTRACTS PAYABLE

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

	2015	2014
Amount payable		
Within one year	$ 66,419,455	$ 62,464,565
In one to five years	22,230,403	22,553,947
Total appropriated grants and contracts payable	88,649,858	85,018,512
Less: Unamortized discount	(220,595)	(235,340)
Appropriated grants and contracts payable, net	$ 88,429,263	$ 84,783,172

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 0.33% to 0.92% for 2015 and from 0.13% to 1.07% for 2014.

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:

	2015	2014
Project funding commitments		
Television support	$ 28,864,911	$ 38,244,662
Radio support	7,198,688	8,293,997
Digital	1,782,794	2,718,155
Next generation TV interconnection system	3,949,263	3,935,095
Radio interconnection system	—	102,536
Other system support and corporate administration	19,236,150	18,995,708
Total designated net assets	$ 61,031,806	$ 72,290,153

NOTE H—PROGRAM AND SUPPORTING SERVICES

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 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* 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 original term of September 30, 2010 to September 29, 2015 has been extended through March 31, 2016.

- *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 4.8% and 4.5%, respectively, for 2015 and 2014.

NOTE H—PROGRAM AND SUPPORTING SERVICES—Continued

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

	2015	2014
Personnel and related costs	$ 15,826,057	$ 14,618,668
Consultants and professional services	566,301	654,038
Facility and related costs	3,871,520	3,861,117
Travel and related costs	678,962	705,731
Other	207,215	242,994
Total corporate administration expense	21,150,055	20,082,548
Depreciation and amortization	85,291	102,917
Total corporate administration and other expenses	$ 21,235,346	$ 20,185,465

NOTE I—BENEFIT PLAN

The Corporation sponsors defined contribution plans covering substantially all of 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 2015 and 2014, the Corporation expensed plan contributions of $1,743,826 and $1,709,189, respectively.

NOTE J—COMMITMENTS

Lease Commitments

The Corporation is obligated under a lease agreement for office space through April 2020. Total rent expense of $3,040,556 and $3,056,452 for fiscal years 2015 and 2014, respectively, is reflected in corporate administration and other expenses on the accompanying combined statements of activities. The future minimum rental payments under this non-cancelable operating lease are as follows:

2016	$ 2,583,842
2017	2,622,600
2018	2,661,939
2019	2,701,868
2020	1,589,795
	$ 12,160,044

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, 2020. Music royalty expense of $8,451,962 and $8,432,178 for fiscal years 2015 and 2014, respectively, is reflected in other system support and digital on the accompanying combined statements of activities. The future minimum music royalty payments under non-cancelable contracts are as follows:

2016	$ 8,194,281
2017	8,194,281
2018	579,281
2019	560,000
2020	560,000
	$ 18,087,843

NOTE K—INCOME TAXES

The Corporation and Literary Classics, Inc. are both exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code except for unrelated business income. The Corporation has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it has nexus; and to identify and evaluate other matters that may be considered tax positions.

The 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 financial statements. The Corporation's management believes it has no unrelated business income and no material uncertain tax positions and; accordingly, it will not recognize any liability for unrecognized tax benefits. Literary Classics, Inc. has also implemented ASC 740-10 and has identified no material uncertain income tax liabilities which would require disclosure. For the tax years ended September 30, 2015 and 2014 the Corporation and Literary Classics, Inc. did not recognize any interest or penalties. The tax years ending September 30, 2012, 2013, 2014 and 2015 are still open to audit for both federal and state purposes.

NOTE L—SUBSEQUENT EVENTS

The Corporation evaluated its September 30, 2015 financial statements for subsequent events through February 4, 2016, 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.