Grant Thornton

Combined Financial Statements and Report of Independent Certified Public Accountants

Corporation for Public Broadcasting and Affiliate

September 30, 2017 and 2016

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 (a nonprofit organization) (the "Corporation"), which comprise the combined statements of financial position as of September 30, 2017 and 2016, 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 Corporation's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Corporation for Public Broadcasting and Affiliate as of September 30, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Baltimore, Maryland
March 2, 2018

Corporation for Public Broadcasting and Affiliate

Combined Statements of Financial Position

September 30,		**2017**		**2016**
Assets				
Cash and cash equivalents	$	54,809,811	$	78,199,349
Short-term investments		109,841,302		83,544,081
Investments-other		50,000,000		5,000,000
Receivables, net		26,148,467		18,998,004
Prepaid expenses and other		598,620		443,620
Property and equipment, net		338,992		469,023
Total Assets	$	241,737,192	$	186,654,077
Liabilities and Net Assets				
Liabilities				
Accounts payable and accrued expenses	$	6,589,026	$	6,373,543
Appropriated grants and contracts payable, net		95,355,790		87,613,534
Total Liabilities		101,944,816		93,987,077
Unrestricted Net Assets				
Designated		139,366,033		92,106,932
Investment in property and equipment		338,992		469,023
Literary Classics, Inc.		87,351		91,045
Total Unrestricted Net Assets		139,792,376		92,667,000
Total Liabilities and Net Assets	$	241,737,192	$	186,654,077

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

Corporation for Public Broadcasting and Affiliate

Combined Statements of Activities

September 30,	2017	2016
Revenue:		
Federal appropriations:		
General	$ 445,000,000	$ 445,000,000
Public broadcasting interconnection	50,000,000	40,000,000
Investment income	2,337,039	972,758
Department of Education – Ready to Learn	18,716,528	18,786,672
Royalties and other income	1,241,077	1,364,160
Grant and contract refunds	6,735,567	4,347,737
Total Revenue	524,030,211	510,471,327
Expenses		
Program services:		
Television programming	81,467,600	77,944,961
Radio programming:		
Radio Program Fund	5,611,559	9,393,044
National program production and acquisition grants	23,371,231	22,720,562
System support:		
Television community service grants	226,878,595	226,794,750
Radio community service grants	70,803,378	69,917,857
Digital	1,283,856	1,514,362
Radio interconnection	1,508	8,327
Next generation TV interconnection system	—	3,968,890
Public broadcasting interconnection	—	573,701
Department of Education – Ready to Learn	18,716,528	18,786,672
Other system support	27,525,566	26,138,118
	455,659,821	457,761,244
Corporate administration and other expenses	21,245,014	21,697,941
Total Expenses	476,904,835	479,459,185
Changes in Net Assets	47,125,376	31,012,142
Net Assets, beginning of year	92,667,000	61,654,858
Net Assets, end of year	$ 139,792,376	$ 92,667,000

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,	2017	2016
Cash Flows from Operating Activities		
Change in net assets	$ 47,125,376	$ 31,012,142
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization	184,745	155,693
Provision for doubtful accounts	137,506	—
(Increase) decrease in assets:		
Receivables, net	(7,287,969)	(8,812,473)
Prepaid expenses	(155,000)	83,811
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	215,483	(97,532)
Appropriated grants and contracts payable	7,742,256	(815,729)
Net Cash Provided by Operating Activities	47,962,397	21,525,912
Cash Flows from Investing Activities		
Purchase of property and equipment	(54,714)	(95,545)
Purchase of investments	(282,801,560)	(255,319,747)
Proceeds from investments	211,504,339	245,389,431
Net Cash Used in Investing Activities	(71,351,935)	(10,025,861)
Net (Decrease) Increase in Cash and Cash Equivalents	(23,389,538)	11,500,051
Cash and Cash Equivalents, beginning of year	78,199,349	66,699,298
Cash and Cash Equivalents, end of year	$ 54,809,811	$ 78,199,349

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 2019. The initial annual advance appropriations for fiscal years 2016 through 2018 were $445,000,000 in each year. For fiscal year 2016, the advance appropriation was initially reduced by 0.2108% as a result of the Continuing Appropriations Act, 2016, PL 114-53, resulting in an appropriation of $444,061,940. However, the full appropriation of $445,000,000 was later restored after the passage of the Consolidated Appropriations Act, 2016, PL 114-113. In fiscal year 2017, the Corporation received the full advance appropriation, which was included 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. 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, 2017 and 2016.

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

Basis of Presentation—Continued

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, 2017 and 2016.

Use of Estimates

The preparation of the combined financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported and related disclosures. Actual results could differ from those estimates.

Revenue and Expense Recognition

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

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, which primarily include royalty payments related to certain productions funded by the Corporation, 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.

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

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

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

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.

Short-Term Investments

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

Investments-other

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

Concentration of Risk

Financial instruments which potentially subject the Corporation to concentrations of credit risk include cash and cash equivalents, short-term investments and investments-other. At times, the Corporation’s cash exceeds the current insured amounts under the Federal Deposit Insurance Corporation (FDIC). As of September 30, 2017 and 2016, the Corporation’s cash balances exceeded the current insured amount under FDIC by approximately $13,827,000 and $30,524,445, respectively. The Corporation holds United States Treasury bills and corporate bonds and commercial paper issued by financially-strong corporations. By policy, these investments are kept within limits designed to reduce risks caused by concentration.

Receivables

Receivables consist primarily of 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.

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

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.

NOTE B—SHORT-TERM INVESTMENTS

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

	2017	2016
Federal agency discount notes and debentures	$ 61,086,013	$ 45,561,628
Corporate bonds	38,793,517	37,982,453
Commercial paper	9,961,772	—
	$ 109,841,302	$ 83,544,081

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.

NOTE B—SHORT-TERM INVESTMENTS—Continued

Fair Value Measurements—Continued

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, 2017 and 2016:

	2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Federal agency discount notes and debentures	$ 61,086,013	$ —	$ —	$ 61,086,013
Corporate bonds	38,793,517	—	—	38,793,517
Commercial paper	9,961,772	—	—	9,961,772
	$ 109,841,302	$ —	$ —	$ 109,841,302

	2016			
	Level 1	**Level 2**	**Level 3**	**Total**
Federal agency discount notes and debentures	$ 2,130,427	$ 43,431,201	$ —	$ 45,561,628
Corporate bonds	35,968,982	2,013,471	—	37,982,453
	$ 38,099,409	$ 45,444,672	$ —	$ 83,544,081

NOTE C—RECEIVABLES

Receivables consist of the following at September 30:

	2017	2016
Grants and grant refunds receivable	$ 2,945,996	$ 1,154,369
U.S. Department of Education receivable	22,775,566	17,822,625
Other	751,348	207,947
Receivables, gross	26,472,910	19,184,941
Less: allowance for doubtful accounts	(324,443)	(186,937)
Receivables, net	26,148,467	18,998,004
Current receivables	26,148,467	18,998,004
Noncurrent receivables	—	—
Receivables, net	$ 26,148,467	$ 18,998,004

NOTE D—PROPERTY AND EQUIPMENT, NET

Property and equipment consist of the following at September 30:

	2017	2016
Furniture and equipment	$ 1,851,862	$ 1,797,148
Software	1,900,413	1,900,413
Leasehold improvements	831,667	831,667
	4,583,942	4,529,228
Less: accumulated depreciation and amortization	(4,244,950)	(4,060,205)
Total property and equipment, net	$ 338,992	$ 469,023

Depreciation and amortization expense was $184,745 and $155,693 for the years ended September 30, 2017 and 2016, respectively.

NOTE E—ACCOUNTS PAYABLE AND ACCRUED EXPENSES

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

	2017	2016
Trade accounts payable	$ 390,205	$ 231,470
Accrued personnel and related costs	5,657,409	5,565,015
Deferred rent liability	363,311	434,831
Other accrued expenses	178,101	142,226
Total accounts payable and accrued expenses	$ 6,589,026	$ 6,373,543

NOTE F—APPROPRIATED GRANTS AND CONTRACTS PAYABLE

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

	2017	2016
Amount payable:		
Within one year	$ 77,891,045	$ 77,976,860
In one to five years	17,890,698	9,767,584
Total appropriated grants and contracts payable	95,781,743	87,744,444
Less: Unamortized discount	(425,953)	(130,910)
Appropriated grants and contracts payable, net	$ 95,355,790	$ 87,613,534

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 0.42% to 1.62% for 2017 and from 0.42% to 0.92% for 2016.

NOTE G—UNRESTRICTED NET ASSETS

As of September 30, the portion of unrestricted net assets which has been designated by statute for specific purposes, is summarized as follows:

	2017	2016
Project funding commitments:		
Television support	$ 18,158,013	$ 23,632,245
Radio support	5,435,174	5,354,816
Digital	1,002,579	1,030,422
Public broadcasting interconnection	90,044,001	39,538,863
Other system support and corporate administration	24,726,266	22,550,586
Total designated net assets	$139,366,033	$ 92,106,932

Also included in unrestricted net assets on the combined statements of financial position are the Corporation's investment in property and equipment, net of accumulated depreciation, and the net assets of Literary Classics, Inc.

NOTE 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.

NOTE H—PROGRAM AND SUPPORTING SERVICES—Continued

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

- *Radio interconnection* is a long-term infrastructure project that began in 2008 and that 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. Radio interconnection includes the funding of long-term leases for satellite transponder space. The current leases expire in June 2020.

- *Next generation TV interconnection system* ("NGIS") funding began in 2005 and provides for the development and implementation of an interconnection system to be used by public television stations to transmit and receive programming feeds. NGIS consists of hardware such as satellite dishes, receivers and computers and the software to control them. NGIS also included long-term leases for satellite transponder space. The current leases expire September 2018.

- *Public broadcasting interconnection system* funding began in 2016 and provides for the development and implementation of a new interconnection system to be used by both public television and radio stations to transmit and receive programming feeds. As mentioned above, the satellite leases for the current public television interconnection and public radio interconnection systems will expire in a few years. Congress provided these funds so that improved technology may enable public television and public radio stations to share certain elements of a new interconnection system, leading to greater efficiencies.

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

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

- *Corporate administration and other expenses* include supporting service expenses for Corporation staff, consultants and professional services, travel, printing, publications, rent, communications and utilities, data processing and other administrative support. These expenses are limited by federal statute to 5.0% of the general federal appropriation. The proportion of corporate administrative and other expenses to the general federal appropriation was 4.8% and 4.9%, respectively, for 2017 and 2016.

NOTE H—PROGRAM AND SUPPORTING SERVICES—Continued

Total corporate administration expenses for the fiscal years ended September 30 are summarized as follows:

	2017	2016
Personnel and related costs	$ 15,864,498	$ 16,018,241
Consultants and professional services	370,223	673,831
Facility and related costs	4,006,061	3,805,451
Travel and related costs	548,519	848,816
Other	270,968	195,909
Corporate administration expense	21,060,269	21,542,248
Depreciation and amortization	184,745	155,693
Total corporate administration and other expenses	$ 21,245,014	$ 21,697,941

NOTE I—BENEFIT PLANS

The Corporation sponsors defined contribution plans covering substantially all its employees. The Corporation contributes to these plans on behalf of its employees pursuant to the provisions of the plans. Contributions are expensed as they are earned by eligible employees. In fiscal years 2017 and 2016, the Corporation expensed plan contributions of $1,945,178 and $1,902,838, respectively.

NOTE J—COMMITMENTS

Lease Commitments

The Corporation is obligated under a lease agreement for office space through April 2020. Total rent expense of $3,071,645 and $3,050,202 for fiscal years 2017 and 2016, respectively, is reflected in corporate administration and other expenses on the accompanying combined statements of activities. The future minimum rental payments per fiscal year under this non-cancelable operating lease are as follows:

2018	$ 2,661,939
2019	2,701,868
2020	1,589,795
	$ 6,953,602

Music Royalties

The Corporation is obligated to pay system-wide music royalties under several contractual agreements which expire on various dates from now until December 31, 2022. Music royalty expense of $8,439,350 and $8,570,354 for fiscal years 2017 and 2016, respectively, is reflected in other system support and digital on the accompanying combined statements of activities. The future minimum music royalty payments per fiscal year under non-cancelable and cancelable contracts are as follows:

	Non-Cancelable	Cancelable
2018	$ 579,281	$ 3,615,000
2019	580,206	3,615,000
2020	580,206	3,615,000
2021	20,206	3,615,000
2022	20,206	3,615,000
Thereafter	20,206	—
	$ 1,800,311	$ 18,075,000

NOTE K—INCOME TAXES

Both the Corporation and Literary Classics, Inc. are exempt from federal income tax under IRC section 501(c)(3) and 170(b)(1)(A)(vi), though are subject to tax on income unrelated to their respective exempt purpose, unless that income is otherwise excluded by the Code. Both the Corporation and Literary Classics, Inc. have processes presently in place to ensure the maintenance of their tax-exempt status; to identify and report unrelated income; to determine the relevant filing and tax obligations in jurisdictions for which they have nexus; and to identify and evaluate other matters that may be considered tax positions. The tax years ending September 30, 2017, 2016, 2015 and 2014 are still open to audit for both federal and state purposes. The Corporation and Literary Classics, Inc. have determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements.

The Corporation and Literary Classics, Inc. follow guidance that clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This guidance provides that the tax effects from an uncertain tax position can only be recognized in the financial statements if the position is "more-likely-than-not" to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged.

NOTE L—SUBSEQUENT EVENTS

The Corporation evaluated its September 30, 2017 combined financial statements for subsequent events through March 2, 2018, the date the combined financial statements were available to be issued. The Corporation is not aware of any subsequent events which would require recognition or disclosure in the combined financial statements.