Public Broadcasting Service and Subsidiaries

Consolidated Financial Statements and Independent Auditor's Report

Years Ended June 30, 2015 and 2014

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Contents

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Independent Auditor's Report

To the Board of Directors
Public Broadcasting Service
Arlington, Virginia

We have audited the accompanying consolidated financial statements of the **Public Broadcasting Service and Subsidiaries**, which comprise the consolidated statements of financial position as of June 30, 2015 and 2014, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the **Public Broadcasting Service and Subsidiaries** as of June 30, 2015 and 2014, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BDO USA, LLP

October 28, 2015

Consolidated Financial Statements

Public Broadcasting Services and Subsidiaries

Consolidated Statements of Financial Position

June 30,		**2015**		2014
(in thousands)				
Assets				
Current assets				
Cash and cash equivalents	**$**	**46,271**	$	43,810
Investments		**60,283**		92,189
Accounts receivable, net		**129,947**		136,297
Inventory, net		**7,810**		5,182
Prepaid satellite leases		**3,580**		3,792
Prepaid expenses and other assets		**13,131**		7,528
Total current assets		**261,022**		288,798
Property and equipment				
Land and building		**19,013**		19,013
Satellite transponder		**6,712**		6,712
Broadcasting equipment		**71,943**		68,215
Furniture and equipment		**4,937**		4,726
Computer and software		**37,357**		32,484
Mobile applications		**1,347**		951
Leasehold improvements		**14,915**		14,893
		156,224		146,994
Less accumulated depreciation and amortization		**(119,051)**		(111,014)
Property and equipment, net		**37,173**		35,980
Other noncurrent assets				
Unamortized broadcast rights		**120,413**		83,518
Investments, net of current portion		**122,239**		116,989
Accounts receivable, net of current portion		**5,411**		31,978
Prepaid satellite leases, net of current portion		**884**		4,464
Other assets		**2,944**		2,918
Total other noncurrent assets		**251,891**		239,867
Total assets	**$**	**550,086**	$	564,645

June 30,	**2015**	2014
(in thousands)		
Liabilities and net assets		
Current liabilities		
Accounts payable and accrued expenses	**$ 135,673**	$ 109,958
Cable and license fees payable	**29,140**	18,388
Term loan	**-**	1,280
Bonds payable	**550**	525
Deferred revenue		
Programming	**77**	96
Other	**1,455**	1,626
Total current liabilities	**166,895**	131,873
Term loan, net of current portion	**-**	3,839
Bonds payable, net of current portion	**16,960**	17,510
Deferred lease obligations	**6,928**	7,856
Other liabilities	**64**	407
Total liabilities	**190,847**	161,485
Minority interest	**15,419**	12,788
Commitments and contingencies		
Net assets		
Unrestricted		
Designated	**223,748**	236,074
Undesignated	**32,929**	32,071
Temporarily restricted	**83,165**	122,227
Permanently restricted	**3,978**	-
Total net assets	**343,820**	390,372
Total liabilities and net assets	**$ 550,086**	$ 564,645

See accompanying notes to the consolidated financial statements.

Public Broadcasting Service and Subsidiaries

Consolidated Statements of Activities

Years ended June 30, *(in thousands)*	2015 Unrestricted Designated	2015 Unrestricted Undesignated	2015 Temporarily Restricted	2015 Permanently Restricted	2015 Total	2014 Unrestricted Designated	2014 Unrestricted Undesignated	2014 Temporarily Restricted	2014 Total
Changes in net assets									
Revenues, gains, and other support									
Imputed value of donated broadcast rights	**$ 165,758**	**$ -**	**$ -**	**$ -**	**$ 165,758**	$ 121,971	$ -	$ -	$ 121,971
Member assessments	**158,802**	**29,545**	**-**	**-**	**188,347**	153,904	29,691	-	183,595
Grants and contributions	**1,476**	**699**	**55,731**	**3,978**	**61,884**	613	862	150,610	152,085
Video	**-**	**71,021**	**-**	**-**	**71,021**	-	77,789	-	77,789
Royalties	**1,205**	**79,686**	**-**	**-**	**80,891**	263	68,608	-	68,871
Satellite services	**-**	**575**	**600**	**-**	**1,175**	-	575	594	1,169
Investment returns, net	**812**	**45**	**11**	**-**	**868**	22,356	(4)	-	22,352
Other	**4,320**	**15,568**	**287**	**-**	**20,175**	1,530	13,296	94	14,920
Net assets released from restrictions	**38,395**	**57,296**	**(95,691)**	**-**	**-**	38,075	49,504	(87,579)	-
Total revenues, gains, and other support	**370,768**	**254,435**	**(39,062)**	**3,978**	**590,119**	338,712	240,321	63,719	642,752
Expenses									
Program services									
Programming	**350,565**	**32,401**	**-**	**-**	**382,966**	282,237	22,968	-	305,205
Promotion	**32,637**	**4,758**	**-**	**-**	**37,395**	29,677	4,297	-	33,974
Member services	**773**	**10,089**	**-**	**-**	**10,862**	1,614	12,594	-	14,208
Interconnection and technical services	**2,869**	**34,827**	**-**	**-**	**37,696**	1,561	35,063	-	36,624
Educational grants	**-**	**9,354**	**-**	**-**	**9,354**	-	12,138	-	12,138
Ventures	**215**	**105,296**	**-**	**-**	**105,511**	183	92,712	-	92,895
Royalties and other	**9**	**1,993**	**-**	**-**	**2,002**	10	14,476	-	14,486
Total program services	**387,068**	**198,718**	**-**	**-**	**585,786**	315,282	194,248	-	509,530
Supporting services									
Management and general	**2,295**	**32,200**	**-**	**-**	**34,495**	2,395	27,317	-	29,712
Fundraising	**36**	**1,886**	**-**	**-**	**1,922**	41	1,926	-	1,967
Total supporting services	**2,331**	**34,086**	**-**	**-**	**36,417**	2,436	29,243	-	31,679
Total expenses	**389,399**	**232,804**	**-**	**-**	**622,203**	317,718	223,491	-	541,209
Change in net assets before minority interest, unrealized gain on interest rate swap, gain on sale of minority interest and net asset transfers	**(18,631)**	**21,631**	**(39,062)**	**3,978**	**(32,084)**	20,994	16,830	63,719	101,543
Minority interest	**-**	**(14,811)**	**-**	**-**	**(14,811)**	-	(15,490)	-	(15,490)
Unrealized gain on interest rate swap	**-**	**343**	**-**	**-**	**343**	-	347	-	347
Gain on sale of minority interest	**-**	**-**	**-**	**-**	**-**		22,000		22,000
Net asset transfers	**6,305**	**(6,305)**	**-**	**-**	**-**	25,933	(25,933)	-	-
Change in net assets	**(12,326)**	**858**	**(39,062)**	**3,978**	**(46,552)**	46,927	(2,246)	63,719	108,400
Net assets, beginning of year	**236,074**	**32,071**	**122,227**	**-**	**390,372**	189,147	34,317	58,508	281,972
Net assets, end of year	**$ 223,748**	**$ 32,929**	**$ 83,165**	**$ 3,978**	**$ 343,820**	$ 236,074	$ 32,071	$ 122,227	$ 390,372

See accompanying notes to the consolidated financial statements.

Public Broadcasting Service and Subsidiaries

Consolidated Statements of Cash Flows

Years ended June 30, *(in thousands)*		**2015**		2014
Cash flows from operating activities:				
Change in net assets	**$**	**(46,552)**	$	108,400
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:				
Depreciation and amortization of property and equipment		**8,295**		8,418
Amortization of broadcast rights		**157,185**		140,533
Loss on disposal of property and equipment		**6**		47
Bad debt expense		**807**		1,342
Minority interest		**2,631**		2,193
Gain on sale of minority interest		**-**		(22,000)
Realized gains on sale of investments		**(1,516)**		(313)
Unrealized loss (gains) on investments		**4,678**		(17,986)
Unrealized gain on interest rate swap		**(343)**		(347)
Decrease (increase) in assets				
Accounts receivable		**32,110**		(59,140)
Inventory		**(2,628)**		(302)
Prepaid satellite leases		**3,792**		3,792
Prepaid expenses and other assets		**(5,629)**		1,293
Unamortized broadcast rights		**(194,080)**		(150,632)
Increase (decrease) in liabilities				
Accounts payable and accrued expenses		**25,715**		12,247
Cable and license fees payable		**10,752**		(10,420)
Deferred revenue and other liabilities		**(190)**		(3,438)
Deferred lease obligations		**(928)**		(825)
Net cash (used in) provided by operating activities		**(5,895)**		12,862
Cash flows from investing activities:				
Proceeds from sale of investments		**176,272**		72,815
Proceeds from sale of minority interest		**-**		22,000
Purchases of investments		**(152,778)**		(86,868)
Purchases of property and equipment		**(9,494)**		(5,867)
Net cash provided by investing activities		**14,000**		2,080
Cash flows from financing activities:				
Repayment of term loan		**(5,119)**		(1,280)
Repayment of bonds payable		**(525)**		(510)
Proceeds from line of credit		**17,150**		10,064
Repayment of line of credit		**(17,150)**		(10,064)
Net cash used in financing activities		**(5,644)**		(1,790)
Net increase in cash and cash equivalents		**2,461**		13,152
Cash and cash equivalents, beginning of year		**43,810**		30,658
Cash and cash equivalents, end of year	**$**	**46,271**	$	43,810
Supplemental cash flow information:				
Cash paid for interest	**$**	**625**	$	714
Cash paid for income taxes	**$**	**605**	$	476

See accompanying notes to the consolidated financial statements.

1. Summary of Accounting Policies

General

The Public Broadcasting Service (PBS), incorporated in 1969, is a membership organization that in partnership with its member stations serves the American public with programming and services of the highest quality, using media to educate, inspire, entertain, and express the diversity of perspectives.

PBS Enterprises, Inc. (PBSE), a wholly-owned for-profit subsidiary of PBS, was incorporated in December 1984. PBSE was organized to pursue revenue-producing projects and services as part of an ongoing effort to increase public television's financial base. National Datacast, Inc. (NDI) was incorporated in May 1988 as a majority-owned subsidiary of PBSE. During fiscal 2015 NDI purchased the ownership interests of its minority shareholders, an NDI customer and three PBS member stations, totaling 11.42%. Effective March 9, 2015, NDI ceased operations and all assets and liabilities of the company were transferred to its parent company PBSE. Effective that same date, PBSE was converted to a limited liability company, PBS Enterprises, LLC (PBSE LLC). PBSE LLC continues to maintain the network and license agreements with stations that were originally held by NDI. Prior to NDI ceasing operations, PBS managed NDI's assets and agreements through a service agreement approved by NDI's Board of Directors.

PBS Foundation was established by PBS as a 501(c)(3) supporting organization in July 2004. The mission of the PBS Foundation is to enlist philanthropic support of public broadcasting through establishing special initiatives funds and a permanent endowment to ensure PBS' continued excellence, and to promote and enhance outstanding public broadcasting programs and services. During fiscal year 2015, the PBS Foundation established the PBS Endowment Fund for the support of PBS.

In October 2004, PBS partnered with Comcast, Sesame Workshop, and HIT Entertainment to develop two new services for preschoolers: a 24-hour digital cable television channel and a video-on-demand service. The services are managed by the Children's Network, LLC, in which PBS owned a 17.65% interest. In January 2005, PBS created PBS Digital, LLC, a single member limited liability company, of which PBS is the sole member, to account for PBS' activities with the Children's Network, LLC. PBS Digital, LLC sold its interest in Children's Network, LLC in November 2013.

Public Media Distribution, LLC (PBSd) was formed on December 15, 2008, under the laws of the state of Delaware by PBS and WGBH Educational Foundation (WGBH). PBS has a 60% membership interest and WGBH has a 40% membership interest in the organization. PBSd promotes the educational mission of public broadcasting through worldwide distribution of public television content and other high quality content. The 40% minority interest, owned by WGBH is reflected as minority interest in the accompanying consolidated statements of financial position.

Principles of Consolidation

The consolidated financial statements include the accounts of PBS, PBSE LLC, NDI, PBS Foundation, PBS Digital, LLC, and PBSd (collectively referred to as "the Company"). All inter-company balances and transactions have been eliminated in consolidation.

Basis of Accounting

The consolidated financial statements of the Company have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP).

Accounting Pronouncements Adopted

In May 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share*. The ASU simplifies Topic 820 by removing the requirement to categorize, within the fair value hierarchy, all investments measured using the net asset value (NAV) per share practical expedient. Although classification within the fair value hierarchy is no longer required, an entity must disclose the amount of investments measured using the net asset value practical expedient in order to permit reconciliation of the fair value of investments in the hierarchy to the corresponding line items in the statement of financial position. Investments measured using the NAV practical expedient continue to be: (i) exempt from the detailed disclosures related to the fair value hierarchy required by paragraph 820-10-50-2, and (ii) subject to the qualitative and quantitative disclosures described in paragraph 820-10-50-6A. The ASU, however, reduces disclosures that were required for investments that are eligible for the use of, but for which the reporting entity opts not to use, the NAV practical expedient. These investments are no longer subject to the disclosures described in paragraph 820-10-50-6A. Since the fair value for these investments is determined using observable and/or unobservable inputs, the fair value measurements for these investments continue to be subject to the fair value disclosures required by paragraph 820-10-50-2, which includes "levelling" disclosures. The amendments are effective retrospectively for fiscal years beginning after December 15, 2016 and may be early adopted. The early adoption of this new pronouncement resulted in simplified disclosures of investments in Note 18.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The update establishes a comprehensive revenue recognition standard for virtually all industries under U.S. GAAP, including those that previously followed industry-specific guidance. The principle of the update is that an entity should recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The FASB issued ASU 2015-14 in August 2015 that deferred the effective dates of ASU 2014-09 by a year. The guidance is effective for the Company for fiscal year ending June 30, 2020. Management of the Company continues to evaluate the potential impact of this update on the financial statements.

In April 2015, FASB issued ASU 2015-03, *Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. The ASU requires that debt issuance costs be reported in the statements of financial position as a direct deduction from the face amount of the related liability, consistent with the presentation of debt discounts. Prior to the amendments, debt issuance costs were presented as a deferred charge (i.e., an asset) on the statements of financial position. Further, the amendments require the amortization of debt issuance costs to be reported as interest expense. Similarly, debt issuance costs and any discount or premium are considered in the aggregate when determining the effective interest rate on the debt. The amendments are effective for fiscal years beginning after December 15, 2015. The amendments must be applied retrospectively. Management of the Company continues to evaluate the potential impact of this update on the financial statements.

Basis of Presentation

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

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations. Included in unrestricted net assets are amounts that have been designated by the Board of Directors for a specific purpose.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that will be met either by actions of the Company and/or the passage of time.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations which require those assets to be maintained permanently by the Company.

Revenues and gains on short-term investments are reported as increases in unrestricted net assets unless their use is limited by donor-imposed stipulations. Revenues and gains on long-term investments are reported as increases in designated net assets. Expenses are reported as decreases in unrestricted net assets. Expiration of temporary restrictions on net assets (i.e. the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

Revenues and gains on permanently restricted net assets are reported as increases in unrestricted or temporarily restricted net assets dependent on the donor-imposed stipulations. Losses that exceed the initial amounts of the assets received are reported as decreases in unrestricted net assets. Expenses are reported as decreases in unrestricted net assets. Assets authorized for use by the PBS Foundation Endowment Committee for purposes meeting the donor-imposed stipulations are reported as net assets released from restrictions.

Endowment

The PBS Endowment Fund consists of individual funds established at the PBS Foundation for a variety of purposes that are subject to varying levels of donor imposed stipulations.

The Company classifies amounts designated by the donor to be preserved in perpetuity as permanently restricted. Donor funds that are not designated by the donor to be preserved in perpetuity are classified as temporarily restricted or unrestricted. Earnings from all donor-restricted funds are classified as temporarily restricted until such time as they are appropriated for use or classified as unrestricted. Both the principal and earnings of Board designated funds are classified as unrestricted. Investment income and investment gains and losses are attributed to individual endowment funds in proportion to their pro rata share of the investment balance. The endowment fund had no temporarily restricted net assets as of June 30, 2015 and 2014.

Investments

Investments in debt and equity securities are recorded at fair value based on quoted market prices. Unrealized and realized gains and losses are recorded in investment returns in the consolidated statements of activities.

Investments that are not expected to be used within one year are classified as noncurrent in the consolidated statements of financial position.

Accounts Receivable

Accounts receivable consists primarily of amounts due from member stations and the Corporation for Public Broadcasting.

The Company regularly evaluates the ability of its members and other customers to pay amounts due and makes appropriate provisions for doubtful accounts. The allowance for doubtful accounts is approximately $6.6 million and $6.2 million at June 30, 2015 and 2014, respectively.

Inventory

Inventory, which consists primarily of DVDs, catalogs and print packaging for the wholesale and consumer markets, is stated at the lower of cost or market. PBSd determines cost using the average cost method. Obsolete or unsalable inventory is reflected at its estimated net realizable value.

Property and Equipment

Property and equipment are recorded at cost and depreciated or amortized on the straight-line basis over the following estimated useful lives:

Building	45 years
Satellite transponder	12 years
Broadcasting equipment	4-5 years
Computer and software	3-5 years
Furniture and equipment	3-8 years
Mobile applications	3 years
Leasehold improvements	Term of lease, plus all reasonably assured renewal periods

The Company capitalizes property and equipment with an original cost of $5,000 or more and an estimated useful life of more than one year. When assets are sold, or otherwise disposed of, the asset and related accumulated depreciation and amortization are removed from the accounts, and any resulting gain or loss is recorded. Repairs and maintenance are charged to expense when incurred.

Impairment of Long-Lived Assets

The Company reviews asset carrying amounts whenever events or circumstances indicate that such carrying amounts may not be recoverable. If considered impaired, the carrying amount of the asset is reduced to its current fair value.

Revenue Recognition

Member Assessments – PBS member stations pay an annual member assessment for access to programming and non-programming services. Programming services includes the broadcast rights of the National Program Service, PBS PLUS and PBS Fundraising Programming, which consists of approximately 3,060 hours of programming and related promotion and support. Non-programming related services include digital products, education, and development. The revenue is recognized in the fiscal year to which the assessment applies.

Grants and Contributions – Unconditional contributions, and grants classified as contributions, are recognized as revenue in the period received or when the promise is made, whichever comes first.

Conditional contributions are recorded as revenue when all conditions have been substantially met. As of June 30, 2015 and 2014, the Company had no conditional grants.

Revenue from grants, classified as exchange transactions, is recognized to the extent of expenses incurred. When cumulative expenses incurred in accordance with the grant provisions are in excess of cumulative receipts, the excess is accrued and reflected as accounts receivable with a corresponding credit to revenue, up to the total grant award. When cumulative receipts are in excess of cumulative expenses, the excess is reflected as deferred revenue.

Video – Revenue from the sale of DVDs is recognized in the period in which the DVD is shipped to the customer.

Royalties – Revenue from PBSd's on demand digital video content is recognized when the content is downloaded. Revenue from PBSd's video distribution agreements that is recognized upon receipt of billing activity from the mass retail distribution partner. In addition, revenue earned from the licensing of programming for subscription on demand platforms and for international distribution is recognized once all program masters and deliverables have been delivered to the customer and a formal contract is executed. Royalty revenue is recorded in the period in which it is earned, except when the amount of revenue cannot be reasonably determined before receipt. In these cases revenue is recognized when funds are received. Revenue from satellite providers is recognized in the period in which the programs are aired by the satellite providers. Revenue from cable providers is recognized when funds are received by the United States Copyright Office, as amounts to be paid cannot be reasonably determined before they are received.

Satellite Services – Revenue from the sale of excess satellite transponder capacity is recognized in the period in which the related services are provided.

License Fees **-** Included within other revenue in the consolidated statements of activities is revenue from Children's Network, LLC. Revenue is recognized when the programs are selected for airing on Sprout.

Advertising Expenses

The costs of advertising are expensed, except for direct-response advertising, which is deferred and amortized over its expected period of future benefit.

Direct-response advertising consists primarily of printing, mailing and postage related to PBSd's product catalogs. Total direct-response advertising expense was $2.2 million in both 2015 and 2014.

Income Taxes

PBS and PBS Foundation, are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except for taxes on unrelated business income. PBS Enterprises, Inc. and PBSd are subject to tax. PBS Enterprises, LLC and PBS Digital, LLC are treated as a disregarded entities for tax purposes, and included on the tax returns of PBS.

PBS made estimated federal tax payments of $320,000 and $476,000 for unrelated business income for the years ended June 30, 2015 and 2014. As of June 30, 2015 and 2014, PBS has not recorded a deferred tax asset for net operating loss carry forwards, since their realization is uncertain.

Deferred income taxes for PBS Enterprises, Inc. are recognized for the tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date. The deferred tax asset is recorded in prepaid expenses and other assets and the deferred tax liability is recorded in other liabilities in the consolidated statements of financial position. Income tax expense is recorded in management and general in the consolidated statements of activities.

Under Accounting Standards Codification (ASC) 740-10, *Income Taxes*, 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 Company does not believe there are any unrecognized tax benefits that should be recorded. For the years ended June 30, 2015 and 2014, there was $0 and $8,000, respectively, of interest or penalties included in the consolidated statements of activities. The Company is still open to examination by taxing authorities from fiscal year 2012 forward.

Allocation of Costs

The costs of providing programs and supporting services have been summarized in the consolidated statements of activities. Certain costs have been allocated among the programs and supporting services benefited.

Use of Estimates in the Preparation of Financial Statements

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 amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates and assumptions may also affect the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentation.

2. Description of Functional Activities

The following is a description of the Company's functional activities:

Programming – Represents approximately 3,060 hours of broadcast content, provided by PBS to its 161 member public television licensees, to inform, inspire, engage, and educate. This expense category includes costs associated with administering programming, including content oversight, program scheduling and packaging. PBS capitalizes the cost of purchased broadcast rights (obtained principally for the National Program Service), charging such rights to expense when the program is made available to member stations for initial broadcast. Unamortized broadcast rights are shown as noncurrent assets in the consolidated statements of financial position because current portions are not readily determinable.

Promotion – Represents institutional and program promotion and press efforts intended to increase viewership and increase awareness of the value of public television. These activities provide public television stations with a broad array of promotional support, including on-air and online promotional spots, social media, print and radio advertising, press support and the coordination of public television's educational message and positioning.

Member Services – Represents other services provided to PBS' member stations, including digital products and services, development, and copyright administration.

Interconnection and Technical Services – Represents the scheduling and logging of all satellite feeds; media operation center handling, technical evaluation and other pre-transmission processing of all program video; and program origination transmission including operational support for news and other live event coverage. This expense category also includes other technical research and planning, the management of excess satellite transponder capacity, and the lease and acquisition of satellite capacity.

Educational Grants – Represents activity related primarily to grants received from the Corporation for Public Broadcasting.

Ventures – Represents activities associated with the sale of DVDs, digital content, and program-related products that are sold to educational institutions, libraries, businesses, government agencies and individuals; the licensing, development, and distribution of interactive products, such as online video games; the licensing of video content to commercial online and mobile service providers; and online sponsorship activities.

Royalties and Other – Represents amounts distributed to public broadcasting stations and producers from cable and license fee revenue received from cable and satellite providers; costs associated with the oversight of activities related to the Children's Network, LLC; and fees related to certain programs that air on Sprout.

Management and General – Represents overhead costs, including accounting, administration, finance, human resources, information technology and legal, associated with the operations of the Company.

Fundraising – Represents costs incurred by the PBS Foundation to raise funds and perform activities in support of PBS.

3. Concentrations of Credit Risk

The Company maintains its cash balances at a financial institution in accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its cash.

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of investments held at creditworthy financial institutions. By policy, these investments are kept within limits designed to prevent risks caused by concentration.

Approximately 42% and 50% of the Company's accounts receivable as of June 30, 2015 and 2014, respectively, are due from one grantor. The Company believes the credit risk is mitigated based on a long history with the grantor, and management's ongoing considerations around collectability of its trade receivables. The credit risk with respect to the remaining accounts receivable is limited because the Company deals with a large number of customers over a wide geographic area.

4. Cash and Cash Equivalents

As of June 30, 2015 and 2014, the Company had $28.1 million and $25.0 million, respectively, in temporarily restricted funds invested in a money market account. These amounts are included in cash and cash equivalents in the consolidated statements of financial position.

5. Investments

The Company's investments consist of the following as of June 30 (in thousands):

	2015	2014
Short Term:		
Fixed income funds	**$ 60,283**	$ 92,165
Money market funds	**-**	24
	60,283	92,189
Long Term:		
Money market funds	**228**	200
Fixed income funds	**15,996**	14,706
U.S. equity securities	**102,759**	97,386
Investment in fund of funds	**3,256**	4,697
	122,239	116,989
	$ 182,522	$ 209,178

Investment returns for the years ended June 30, 2015 and 2014 consist of the following (in thousands):

		2015		2014
Interest and dividends, net	**$**	**4,030**	$	4,053
Realized gains		**1,516**		313
Unrealized (losses) gains		**(4,678)**		17,986
	$	**868**	$	22,352

Interest and dividends are reported net of related expenses, such as custodial, commission, and investment advisory fees. Such expenses amounted to $270,000 and $259,000 for the years ended June 30, 2015 and 2014, respectively.

6. Prepaid Satellite Leases

In April 2006, PBS entered into lease agreements for transponders on New Skies Satellites B.V. (formerly SES Americom) satellites. The leases began on various dates beginning in April 2006 and were scheduled to end on various dates through September 2016. In June 2015 these lease agreements were extended and are scheduled to end on various dates through September 2021. No prepayments associated with these lease extensions were made in fiscal 2015.

As of June 30, 2015 and 2014, the balance of payments made to New Skies Satellites B.V. for future periods was $4.5 million and $8.3 million, respectively. These amounts are included in prepaid satellite leases in the accompanying consolidated statements of financial position.

7. Debt

Line of Credit

On May 31, 2013, PBS entered into a new credit facility, which is a committed line-of-credit of up to $20.0 million which expires on January 31, 2016. The line-of-credit incurs interest at LIBOR + 0.45%. PBS also pays a 0.10% fee on the unused balance of the commitment.

Interest expense related to the line-of-credit amounted to $3,000 in both 2015 and 2014. As of June 30, 2015 and 2014, there were no amounts outstanding on the line-of-credit facility.

Term Loan

Effective May 31, 2013, $6.4 million of borrowing by PBS was converted to an unsecured term loan with a five-year maturity. The $6.4 million principal balance was to be paid pro-rata in annual installments over the five year term of the agreement. As of June 30, 2014, the outstanding balance of the term loan was $5.1 million. However, on September 30, 2014, PBS prepaid in full, without penalty, the outstanding balance. The unsecured term loan incurred interest at a fixed interest rate of 2.22%.

Interest expense related to the term loan for the years ended June 30, 2015 and 2014 was $38,000 and $144,000, respectively.

Bonds Payable

On June 30, 2005, PBS issued 30-year Fairfax County Economic Development Authority Variable Rate Revenue Bonds (Series 2005) in the amount of $19.5 million to finance the rehabilitation and expansion of its technical facilities and outfitting of its new headquarters facility. The bonds bear interest at a variable rate determined by the remarketing agent, based upon market conditions for reselling the bonds in a secondary market sale. Accrued interest is payable monthly. The repayment schedule called for interest only payments through 2011 and principal and interest payments thereafter until the bonds mature in 2035.

On August 1, 2012, PBS refinanced these bonds through a direct purchase transaction with a bank. Prior to the closing of this transaction, PBS gave notice to all required parties of its intent to exercise its right to effect a mandatory repurchase of the Series 2005 bonds at 100% of the principal amount, plus accrued interest. The mandatory repurchase was effective the date of this new agreement.

Under the new agreement, the bank purchased all of the re-issued Series 2005 bonds with an aggregate outstanding principal balance of $18,545,000. The agreement has a term of approximately nine and a half years. The bonds will be held by the bank until the termination of this agreement on February 1, 2022. The bonds will continue to be redeemed annually based on the initial repayment schedule established at the issuance of the Series 2005 bonds and will retain the original July 1, 2035 final maturity date. Interest on the bonds accrues at a rate of 77% of 30-day LIBOR + 85 basis points (or 0.99% at June 30, 2015). As of June 30, 2015, the bond principal outstanding was $17.5 million.

The scheduled maturities of the bonds are as follows (in thousands):

Years ending June 30,	
2016	$ 550
2017	570
2018	595
2019	615
2020	640
Thereafter	14,540
	$ 17,510

PBS is subject to certain financial covenants under the line of credit, term loan and bond refinancing agreements. All covenants have been met by PBS as of June 30, 2015.

Interest expense related to the bonds payable for the years ended June 30, 2015 and 2014 was $177,000 and $184,000 respectively.

8. Minority Interest

Minority interest represents the ownership interests of the minority owners in NDI and PBSd of 11.42% and 40% respectively. The amounts shown in the consolidated statements of activities represent the minority owners' share of the net income (loss) of the companies for the fiscal years then ended. The amounts shown in the consolidated statements of financial position and consolidated statements of cash flows are net of cash distributions by the companies to the minority owners.

The minority interest balance for the years ended June 30, 2015 and 2014 consists of the following (in thousands):

		2015		2014
Beginning balance, minority interest	$	12,788	$	10,595
Share of PBSd and NDI fiscal year net income		14,811		15,490
Cash distributions to minority ownership		(12,180)		(13,297)
Ending balance, minority interest	$	15,419	$	12,788

On November 13, 2013, PBS Digital, LLC sold its minority equity interest in Children's Network, LLC, the proceeds of which are reflected on the consolidated statements of activities as "Gain on sale of minority interest".

9. Designated Net Assets

Designated net assets consist of the following as of June 30 (in thousands):

		2015		2014
Content	$	158,477	$	173,836
Digital and content initiatives		30,961		26,308
Investment gains		14,272		14,721
Roadmap to the Future		11,130		12,297
Property		5,156		6,244
Strategic investment		2,241		2,314
Others		1,511		354
	$	223,748	$	236,074

10. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes as of June 30 (in thousands):

	2015	2014
Programming	$ 41,354	$ 73,886
Grants	27,208	30,285
Interconnection and technical services	14,603	18,056
	$ 83,165	$ 122,227

11. Net Assets Released from Restrictions

Net assets were released from donor restrictions during the years ended June 30, 2015 and 2014 as follows (in thousands):

	2015	2014
Grants	$ 39,975	$ 39,706
Programming	38,395	38,075
Interconnection and technical services	17,321	9,798
	$ 95,691	$ 87,579

12. Permanently Restricted Net Assets

Permanently restricted net assets as of June 30, 2015 consist of the endowment fund from The Iris and Joseph Pollock Fund amounting to $3,978,088. There were no permanently restricted assets as of June 30, 2014.

The Iris and Joseph Pollock Fund

During fiscal year 2015 the, the Company received $3,978,088 to establish The Iris and Joseph Pollock Fund. The income from this endowment fund will be used to fund the broadcast and dissemination of classical music programming.

13. Endowment

The PBS Endowment Fund consists of individual funds established for a variety of purposes. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed stipulations. The Company reports those funds in accordance with ASC 958, *Endowments of Not-for-Profit Organizations: Net Asset Classifications of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), and Enhanced Disclosures for All Endowment Funds*.

Description of Endowment Funds

At June 30, 2015, the Company had endowment funds totaling $4,990,853. Of this total, funds totaling $3,978,088 were permanently restricted with donor imposed stipulations on the use of the funds. In addition to the permanently restricted fund, the Company had Board designated endowment funds.

Donor Restricted Endowment Fund:
The Iris and Joseph Pollock Fund: To provide for the broadcast and dissemination of classical music programming.

Board Designated Fund:
PBS Endowment Fund: To provide a continued source of income for operations, special projects, capital improvements or for emergency needs.

The distribution of endowment net assets between donor restricted and Board designated for the year ended June 30, 2015 (in thousands) is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment fund:				
The Iris and Joseph Pollock Fund	$ -	$ -	$ 3,978	$ 3,978
Board designated fund:				
PBS Endowment Fund	1,013	-	-	1,013
Total endowment net assets	$ 1,013	$ -	$ 3,978	$ 4,991

Changes in endowment net assets for the year ended June 30, 2015 (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Beginning of year	$ -	$ -	$ -	$ -
Contributions and additions	1,025	-	3,978	5,003
Investment gains and (losses), net	(12)	-	-	(12)
Distributions	-	-	-	-
End of year	$ 1,013	$ -	$ 3,978	$ 4,991

Funds with Deficiencies

The fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Company to retain as a fund of perpetual duration. There were no endowment funds with deficiencies for the year ended June 30, 2015.

Endowment Investing Policies

Permanent endowments and other endowments are aggregated into a single investment pool to permit optimal investment allocation. The Company's primary investment objectives are to preserve the portfolio's purchasing power through asset growth in excess of the spending distribution, plus the rate of inflation and to invest assets in order to maximize the long-term return while assuming a reasonable level of risk.

The investment portfolio is composed of mutual fund investments. PBS' Investment Subcommittee monitors the portfolio and the investment manager and advises the PBS Foundation Endowment Fund Committee on investment matters in accordance with the Endowment Fund Investment Policy Statement.

Endowment Spending Policy

Endowment gifts are spent in accordance with the wishes of the donor. A determination of the amount available for distribution is performed annually utilizing the calculation provided in The Endowment Fund Expenditure and Accumulation Policy. In the first quarter of each fiscal year the PBS Investment Subcommittee is responsible for reporting to the PBS Foundation Endowment Committee the annual distribution amount. The annual distribution amount is calculated as 4% of a rolling average of the end-of-quarter market value of the endowment fund for the preceding 20 calendar quarters, as determined in the first quarter of the Company's fiscal year. During the first five years of the Fund's existence, the amounts shall be determined based on the rolling average of however many preceding calendar quarters during which the endowment fund has been in existence. The PBS Foundation Endowment Fund Committee is responsible for determining on an annual basis the amount, if any, of funds to expend from the endowment fund. The Investment Subcommittee shall follow the expenditure decisions and directives provided by the Endowment Fund Committee.

14. Imputed Value of Donated Broadcast Rights

In administering the National Program Service, PBS acquires and receives program productions and the related broadcast rights at a cost estimated to be lower than fair market value because the production was directly funded in part by corporate and foundation underwriting. The total amount of underwriting funds provided directly to producers for specific programs is recorded in the accompanying consolidated statements of activities as imputed value of donated broadcast rights.

Imputed value of donated broadcast rights is recognized as revenue in the year the initial program is made available to member stations for initial broadcast. An equal amount of expense is recognized as programming expense in the same year the corresponding revenue is recorded. The imputed value of donated broadcast rights was $165.8 million and $122.0 million for the years ended June 30, 2015 and 2014, respectively.

15. Retirement Plans

Retirement benefits are provided for all eligible employees under a defined contribution retirement plan (the Plan). Employees are eligible to participate in the Plan after one year of service. All Plan participants are fully vested in the contributions made by the Company. Expenses related to the Plan were $3.2 million and $3.0 million in 2015 and 2014, respectively.

16. Commitments

Operating Leases

The Company is obligated under various non-cancelable operating leases for office space, satellite transponders, automobiles, storage, and technical facilities in approximate annual amounts, excluding renewal options available subsequent to June 30, 2015, as follows (in thousands):

Years ending June 30,	
2016	$ 5,088
2017	7,733
2018	7,214
2019	6,714
2020	6,714
Thereafter	6,077
	$ 39,540

During 2005, PBS entered into an operating lease for new headquarters facilities in Arlington, Virginia. The lease officially began on July 1, 2005 as this is the date on which the landlord tendered possession of the demised premises to PBS. The initial lease term is for 15 years starting March 1, 2006, the rent start date. The lease contains renewal options, exercisable at PBS' option, for up to three successive terms of five years each.

In addition to base rent, PBS is required to pay its pro rata share of real estate taxes in excess of the base year (January 1, 2006) real estate taxes, and of the amount of operating expenses in excess of the base year operating expenses.

Rent expense was $4.5 million and $4.4 million in 2015 and 2014, respectively.

Incentives received at the inception of operating leases are accounted for as deferred lease obligations in the accompanying consolidated statements of financial position and amortized on a straight-line basis over the life of the lease.

Programming

PBS has current unpaid commitments of $100.3 million for programs that have not yet been made available for broadcast. These commitments will be funded primarily from the member assessments and from grants from the Corporation for Public Broadcasting.

17. Contingencies

The Company is party to various claims, legal actions and complaints arising from its distribution of programming to member stations and from its video sales and other operations in the ordinary course of business. The Company is generally indemnified contractually by program producers and is also covered by insurance, subject to a deductible amount, for any claims that might be payable by the Company as a result of its distribution of programs to stations. Management believes, based upon advice of counsel, that the disposition of any such matters will not have a material adverse effect on the consolidated financial position of the Company.

The Company receives a portion of its revenue from contracts and grants which are subject to audit by the granting agencies. The ultimate determination of amounts received under these contracts and grants is generally based upon allowable costs required to be reported to and audited by the grantor. Until such audits have been completed and final settlement reached, there exists a contingent liability to refund any amounts received in excess of allowable costs. Management is of the opinion that no significant liability will result from audit adjustments, if any.

The federal funding that supports public broadcasting may decline in the future as part of the on-going deficit reduction and sequestration efforts of Congress. It is not possible to estimate the probability, the amount or the timing of any potential funding cuts, or the effect that any funding reductions might have on PBS.

18. Fair Value of Financial Instruments

ASC 820 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that inputs that are most observable be used when available. Observable inputs are inputs that market participants operating within the same marketplace as the Company would use in pricing the Company's asset or liability based on independently derived and observable market data. Unobservable inputs are inputs that cannot be sourced from a broad active market in which assets or liabilities identical or similar to those of the Company are traded. The Company estimates the price of such assets for which there are only unobservable inputs by using assumptions that market participants that have investments in the same or similar assets would use as determined by the money managers for each investment based on best information available in the circumstances.

The input hierarchy is broken down into three levels based on the degree to which the exit price is independently observable or determinable as follows:

Level 1 - Valuation based on quoted market prices in active markets for identical assets or liabilities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment. Examples include equity securities and publicly traded mutual funds that are actively traded on a major exchange or over-the-counter market.

Level 2 - Valuation based on quoted market prices of investments that are not actively traded or for which certain significant inputs are not observable, either directly or indirectly. The fair value of certain bonds and other investments are estimated using recently executed transactions, bid/ask prices and pricing models that factor in, where applicable, interest rates, bond spreads and volatility.

Level 3 - Valuation based on inputs that are unobservable and reflect management's best estimate of what market participants would use as fair value. The fair value of investments in real estate is derived from other valuation methodologies, including pricing models, discounted cash flow models and similar techniques, and are not based on market exchange, dealer, or broker-traded transactions.

The following table sets forth the Company's financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2015 (in thousands):

Description	Level 1	Level 2	Level 3	NAV	Total
Fixed income funds	$ 76,225	$ -	$ -	$ -	$ 76,225
U.S. equity securities	102,813	-	-	-	102,813
Money market funds	228	-	-	-	228
Fund of funds	-	-	-	3,256	3,256
	179,266	-	-	3,256	182,522
Interest rate swap	-	(64)	-	-	(64)
	$ 179,266	$ (64)	$ -	$ 3,256	$ 182,458

The following table sets forth the Company's financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2014 (in thousands):

Description	Level 1	Level 2	Level 3	NAV	Total
Fixed income funds	$ 106,871	$ -	$ -	$ -	$ 106,871
U.S. equity securities	97,386	-	-	-	97,386
Money market funds	224	-	-	-	224
Fund of funds	-	-	-	4,697	4,697
	204,481	-	-	4,697	209,178
Interest rate swap	-	(407)	-	-	(407)
	$ 204,481	$ (407)	$ -	$ 4,697	$ 208,771

Investments

The fair value of debt securities and equity securities described in Note 5 are based on quoted market prices at the reporting date for those or similar investments.

The fund of funds is valued based on an estimated net assets value per share. As of June 30, 2015, the fair value of the Fund was $3.3 million. During 2008, the Fund announced that it would begin liquidating the fund by prudently redeeming assets from the underlying managers pursuant to the underlying managers' redemption schedules. Full distribution of the Fund is expected to be achieved by 2018. The Company has no unfunded commitments associated with this investment.

Interest Rate Swap

The fair value of this instrument is based on the value obtained from the counter party which is determined using a pricing model. This is the estimate of the amount PBS would have to pay to settle the interest rate swap at the reporting date.

19. Subsequent Events

The Company has evaluated subsequent events through October 28, 2015, which is the date the financial statements were available to be issued. No subsequent events were identified that required adjustment to or disclosure in the consolidated financial statements.