Public Broadcasting Service and Subsidiaries

Consolidated Financial Statements and Independent Auditor's Report

Years Ended June 30, 2018 and 2017

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Contents

Tel: 703-893-0600
Fax: 703-893-2766
www.bdo.com

8401 Greensboro Drive
Suite 800
McLean, VA 22102

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, 2018 and 2017, 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 consolidated financial position of the Public Broadcasting Service and Subsidiaries as of June 30, 2018 and 2017, 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 30, 2018

Consolidated Financial Statements

Public Broadcasting Services and Subsidiaries

Consolidated Statements of Financial Position

June 30,		**2018**		2017
(in thousands)				
Assets				
Current assets				
Cash and cash equivalents	**$**	**53,862**	$	28,218
Investments		**30,364**		31,073
Accounts receivable, net of allowance		**224,983**		184,629
Inventory, net		**4,320**		6,730
Prepaid expenses and other assets		**22,163**		19,734
Total current assets		**335,692**		270,384
Property and equipment, net		**33,422**		33,594
Unamortized broadcast rights		**106,978**		89,385
Investments, net of current portion		**128,691**		131,494
Accounts receivable, net of current portion		**1,082**		27,108
Other assets		**1,525**		1,117
Total assets	**$**	**607,390**	$	553,082
Liabilities and net assets				
Current liabilities				
Accounts payable and accrued expenses	**$**	**142,807**	$	131,845
Cable and license fees payable		**13,864**		15,178
Bonds payable, current portion		**615**		595
Deferred revenue		**1,461**		2,250
Total current liabilities		**158,747**		149,868
Bonds payable, net of current portion		**15,180**		15,795
Deferred lease obligations		**3,558**		4,877
Other liabilities		**-**		46
Total liabilities		**177,485**		170,586
Minority interest		**22,602**		18,108
Commitments and contingencies				
Net assets				
Unrestricted				
Designated		**234,394**		209,300
Undesignated		**26,549**		33,310
Temporarily restricted		**142,332**		117,750
Permanently restricted		**4,028**		4,028
Total net assets		**407,303**		364,388
Total liabilities and net assets	**$**	**607,390**	$	553,082

See accompanying notes to consolidated financial statements.

Public Broadcasting Service and Subsidiaries

Consolidated Statements of Activities

Years ended June 30, *(in thousands)*	2018					2017				
	Unrestricted		Temporarily	Permanently		Unrestricted		Temporarily	Permanently	
	Designated	Undesignated	Restricted	Restricted	Total	Designated	Undesignated	Restricted	Restricted	Total
Changes in net assets										
Revenues, gains, and other support										
Imputed value of donated broadcast rights	**$ 177,712**	**$ -**	**$ -**	**$ -**	**$ 177,712**	$ 133,135	$ -	$ -	$ -	$ 133,135
Member assessments	**173,614**	**23,938**	**-**	**-**	**197,552**	174,340	21,814	-	-	196,154
Grants and contributions	**2,336**	**1,713**	**101,118**	**-**	**105,167**	1,197	830	136,428	-	138,455
Distribution	**315**	**174,237**	**237**	**-**	**174,789**	7,318	179,327	-	-	186,645
Satellite services	**-**	**137**	**-**	**-**	**137**	-	114	-	-	114
Investment return, net	**10,203**	**350**	**592**	**-**	**11,145**	18,178	67	580	-	18,825
Other	**3,138**	**4,767**	**59**	**-**	**7,964**	2,393	5,920	-	-	8,313
Net assets released from restrictions	**32,314**	**45,110**	**(77,424)**	**-**	**-**	27,432	45,351	(72,783)	-	-
Total revenues, gains, and other support	**399,632**	**250,252**	**24,582**	**-**	**674,466**	363,993	253,423	64,225	-	681,641
Expenses										
Program services										
Content	**339,027**	**27,462**	**-**	**-**	**366,489**	320,748	25,864	-	-	346,612
Promotion	**23,095**	**3,185**	**-**	**-**	**26,280**	21,303	2,700	-	-	24,003
Other member services	**1,446**	**6,686**	**-**	**-**	**8,132**	1,563	7,824	-	-	9,387
Technology and operations	**2,143**	**34,703**	**-**	**-**	**36,846**	5,517	30,916	-	-	36,433
Educational grants	**-**	**12,909**	**-**	**-**	**12,909**	-	11,200	-	-	11,200
Ventures	**154**	**123,005**	**-**	**-**	**123,159**	-	122,198	-	-	122,198
Royalties and other	**6**	**4,048**	**-**	**-**	**4,054**	-	2,829	-	-	2,829
Total program services	**365,871**	**211,998**	**-**	**-**	**577,869**	349,131	203,531	-	-	552,662
Supporting services										
Management and general	**2,833**	**33,778**	**-**	**-**	**36,611**	1,615	31,997	-	-	33,612
Fundraising	**-**	**2,248**	**-**	**-**	**2,248**	-	2,120	-	-	2,120
Total supporting services	**2,833**	**36,026**	**-**	**-**	**38,859**	1,615	34,117	-	-	35,732
Total expenses	**368,704**	**248,024**	**-**	**-**	**616,728**	350,746	237,648	-	-	588,394
Change in net assets before minority interest, unrealized gain on interest rate swap and net asset transfers	**30,928**	**2,228**	**24,582**	**-**	**57,738**	13,247	15,775	64,225	-	93,247
Minority interest	**-**	**(15,186)**	**-**	**-**	**(15,186)**	-	(16,582)	-	-	(16,582)
Unrealized gain on interest rate swap	**-**	**363**	**-**	**-**	**363**	-	598	-	-	598
Net asset transfers	**(5,834)**	**5,834**	**-**	**-**	**-**	(1,006)	1,006	-	-	-
Change in net assets	**25,094**	**(6,761)**	**24,582**	**-**	**42,915**	12,241	797	64,225	-	77,263
Net assets, beginning of year	**209,300**	**33,310**	**117,750**	**4,028**	**364,388**	197,059	32,513	53,525	4,028	287,125
Net assets, end of year	**$ 234,394**	**$ 26,549**	**$ 142,332**	**$ 4,028**	**$ 407,303**	$ 209,300	$ 33,310	$ 117,750	$ 4,028	$ 364,388

See accompanying notes to consolidated financial statements.

Public Broadcasting Service and Subsidiaries

Consolidated Statements of Cash Flows

Years ended June 30, *(in thousands)*	**2018**	2017
Cash flows from operating activities:		
Change in net assets	**$ 42,915**	$ 77,263
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	**7,489**	7,253
Amortization of broadcast rights	**129,198**	157,057
Loss on disposal of property and equipment	**18**	408
Impairment expense of acquired rights	**1,989**	1,850
Bad debt expense (recovery)	**781**	(2,748)
Minority interest	**15,186**	16,582
Realized gains on sale of investments	**(12,813)**	(1,786)
Unrealized losses (gains) on investments	**5,400**	(14,220)
Unrealized gains on interest rate swap	**(363)**	(598)
Decrease (increase) in assets		
Accounts receivable	**(15,109)**	(82,096)
Inventory, net	**2,410**	672
Prepaid expenses and other assets	**(2,474)**	2,137
Unamortized broadcast rights	**(148,780)**	(139,996)
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	**10,916**	(2,807)
Cable and license fees payable	**(1,314)**	(6,150)
Deferred revenue and other liabilities	**(789)**	1,352
Deferred lease obligations	**(1,319)**	(1,025)
Net cash provided by operating activities	**33,341**	13,148
Cash flows from investing activities:		
Proceeds from sale of investments	**91,882**	47,509
Purchases of investments	**(80,957)**	(35,279)
Purchases of property and equipment	**(7,335)**	(7,007)
Net cash provided by investing activities	**3,590**	5,223
Cash flows from financing activities:		
Repayment of bonds payable	**(595)**	(570)
Proceeds from line-of-credit	**13,150**	42,400
Repayment of line-of-credit	**(13,150)**	(46,300)
Cash distributions to minority ownership	**(10,692)**	(13,604)
Net cash used in financing activities	**(11,287)**	(18,074)
Net increase in cash and cash equivalents	**25,644**	297
Cash and cash equivalents, beginning of year	**28,218**	27,921
Cash and cash equivalents, end of year	**$ 53,862**	$ 28,218
Supplemental cash flow information:		
Cash paid for interest	**$ 386**	$ 418

See accompanying notes to the consolidated financial statements.

1. Summary of Significant 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 a diversity of perspectives.

PBS Enterprises, LLC (PBSE), a single member limited liability company, of which PBS is the sole member, was organized to pursue revenue-producing projects and services as part of an ongoing effort to increase public television's financial base.

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. The PBS Foundation has established the PBS Endowment Fund for the support of PBS.

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. PBS Digital, LLC had no activity during the years ended June 30, 2018 and 2017.

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, 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 Issued but Not Adopted

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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 until annual periods beginning after December 15, 2018. Management is currently assessing the impact the adoption of this ASU will have on the consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The standard also requires lessors to treat a lease as a sale if it transfers all of the risks and rewards, as well as control of the underlying asset, to the lessee. If risks and rewards are conveyed without the transfer of control, the lease is treated as a financing lease. If the lessor doesn't convey risks and rewards or control, an operating lease results. The guidance is effective for the Company for the fiscal years beginning after December 15, 2018. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. Management is currently assessing the impact the adoption of this ASU will have on the consolidated financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled "net assets without donor restrictions" and "net assets with donor restrictions", (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct internal investment expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. The ASU is effective for the Company's financial statements for fiscal years beginning after December 15, 2017. The provisions of the ASU must be applied on a retrospective basis for all years presented although certain optional practical expedients are available for periods prior to adoption. Management is currently assessing the impact the adoption of this ASU will have on the consolidated financial statements.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU was issued to standardize how grants and other contracts received and made are classified across the sector, as either an exchange transaction or a contribution. The standard provides guidance to assist in the determination of whether a transaction is a contribution or an exchange transaction. If the transaction is deemed to be a contribution, the guidance provides factors to consider with regard to whether the contribution is conditional or unconditional. For contributions received, if determined to be an unconditional contribution, the determination will then need to be made as to whether the contribution is restricted. The ASU will assist in the determination of the nature of the transaction which will then govern the revenue and expense recognition methodology and timing of the transaction. The ASU is effective for transactions in which the entity serves as the resource recipient to annual periods beginning after December 15, 2018. The ASU is effective for transactions in which the entity serves as a resource provider to annual periods beginning after December 15, 2019. Management is currently assessing the impact the adoption of this ASU will have on the consolidated 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 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.

Investments

Investments in debt and equity securities are recorded at fair value based on quoted market prices. Investment in fund of funds is recorded at fair value based on net asset value (NAV) as a practical expedient. Unrealized and realized gains and losses are recorded in investment return 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, the Corporation for Public Broadcasting and distribution partners of PBSd.

The Company regularly evaluates the ability of its members, distribution partners and other customers to pay amounts due and makes appropriate provisions for doubtful accounts. The allowance for doubtful accounts was approximately $14.6 million and $15.8 million at June 30, 2018 and 2017, respectively.

Inventory

Inventory, which consists primarily of DVDs, catalogs and print packaging for the wholesale and consumer markets, is stated at the lower of average cost or net realizable value. 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	1 year
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 1,491 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, 2018 and 2017, the Company had no conditional contributions.

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.

Distribution – Revenue from the sale of DVDs is recognized in the period in which the DVD is shipped to the customer. Revenue from on demand digital video content is recognized when the content is downloaded. Revenue from video distribution agreements 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 a formal contract is executed and all program masters and deliverables have been delivered to the customer. 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.

Other Revenue – Included within other revenue in the consolidated statements of activities is revenue from underwriting, sponsorship and digital advertising revenues, as well as educational courses, conference registrations and mobile application distribution revenues.

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 product catalogs. Total direct-response advertising expense was $2.1 million in fiscal 2018 and $2.0 million in fiscal 2017.

Total advertising expense was $25.8 million in fiscal 2018 and $26.2 million in fiscal year 2017.

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. PBSd is subject to tax. PBSE LLC and PBS Digital, LLC are treated as disregarded entities for tax purposes, and included on the tax returns of PBS.

PBS made no federal tax payments for the years ended June 30, 2018 and June 30, 2017 for unrelated business income as the Company had sufficient net operating loss carry forwards to offset the tax liabilities generated. As of June 30, 2018 and 2017, PBS has not recorded a deferred tax asset for net operating loss carry forwards, since their realization is uncertain.

Under FASB 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, 2018 and 2017, there were no interest or penalties related to tax positions included in the consolidated statements of activities. The Company is still open to examination by taxing authorities from fiscal year 2015 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 consolidated financial statements in conformity with U.S. GAAP 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.

2. Description of Functional Activities

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

Content – Represents approximately 1,491 hours of broadcast content, provided by PBS to its 153 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.

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

Technology and Operations – 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.

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 to raise funds and perform activities in support of PBS, the vast majority of which is incurred by PBS Foundation.

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 35% of the Company's accounts receivable as of June 30, 2018 and 2017, respectively, are due from one grantor. Approximately 39% and 43% of the Company's accounts receivable as of June 30, 2018 and 2017, respectively, were due from three customers. Approximately 16% and 17% and of the Company's revenues during fiscal years 2018 and 2017, respectively, were generated from two and three customers, respectively. 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, 2018 and 2017, the Company had $22.5 million and $18.9 million, respectively, in temporarily restricted funds invested in money market accounts. These amounts are restricted to support the deployment of public television interconnection system, and content development and promotion, and 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):

	2018	2017
Short Term:		
Fixed income funds	**$ 30,364**	$ 31,049
Money market funds	**-**	24
	30,364	31,073
Long Term:		
Money market funds	**109**	1,236
Fixed income funds	**18,428**	17,296
U.S. equity securities	**107,662**	109,830
Foreign equity securities	**1,064**	1,007
Investment in fund of funds	**1,428**	2,125
	128,691	131,494
	$ 159,055	$ 162,567

Investment return for the years ended June 30, 2018 and 2017 consist of the following (in thousands):

		2018		2017
Interest and dividends, net	**$**	**3,732**	$	2,819
Realized gains		**12,813**		1,786
Unrealized (losses) gains		**(5,400)**		14,220
	$	**11,145**	$	18,825

Interest and dividends are reported net of related expenses, such as custodial, commission, and investment advisory fees. Such expenses amounted to $299,000 and $275,000 for the years ended June 30, 2018 and 2017, respectively.

6. Property and Equipment, Net

The Company's property and equipment, net of accumulated depreciation and amortization, consists of the following as of June 30 (in thousands):

		2018		2017
Land and building	**$**	**19,132**	$	19,037
Satellite transponder		**6,712**		6,712
Broadcasting equipment		**74,356**		73,425
Furniture and equipment		**5,576**		5,302
Computer and software		**51,373**		45,909
Mobile applications		**2,154**		1,855
Leasehold improvements		**15,050**		14,915
		174,353		167,155
Less accumulated depreciation and amortization		**(140,931)**		(133,561)
	$	**33,422**	$	33,594

Depreciation and amortization of property and equipment amounted to $7,489 and $7,253 for the years ended June 30, 2018 and 2017, respectively.

7. Debt

Line-of-Credit

PBS has a credit facility with a committed line-of-credit with availability of up to $50.0 million and an expiration date of May 31, 2020. The line-of-credit incurred interest at LIBOR + 0.50% in both fiscal 2018 and 2017, and PBS paid a 0.17% and 0.12% fee on the unused balance of the commitment during fiscal years 2018 and 2017, respectively.

Interest expense related to the line-of-credit amounted to $15,000 in fiscal 2018 and $33,000 in fiscal 2017. As of June 30, 2018 and 2017 there was no amount outstanding on the line-of-credit facility.

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. Under this 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 2.39% at June 30, 2018 and 1.67% at June 30, 2017). As of June 30, 2018 and 2017, the bond principal outstanding was $15.8 million and $16.4 million, respectively.

PBS entered into an interest rate swap (the Swap) to stabilize interest expense related to the debt. The Swap is recorded at fair value of $317 in other assets and ($46) in other liabilities in the consolidated statements of financial position as of June 30, 2018 and 2017, respectively.

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

Years ending June 30,		
2019	$	**615**
2020		**640**
2021		**665**
2022		**695**
2023		**720**
Thereafter		**12,460**
	$	**15,795**

PBS is subject to certain financial covenants under the line-of-credit and bond refinancing agreements. All covenants have been met by PBS as of June 30, 2018.

Interest expense related to the bonds payable for the years ended June 30, 2018 and 2017 was $371,000 and $385,000, respectively.

8. Minority Interest

Minority interest represents the ownership interests of the minority owner in PBSd of 40%. The amounts shown in the consolidated statements of activities represent the minority owner's share of the net income of PBSd 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 PBSd to the minority owner.

The minority interest balance for the years ended June 30, 2018 and 2017 consists of the following (in thousands):

		2018		2017
Beginning balance, minority interest	**$**	**18,108**	$	15,130
Share of PBSd fiscal year net income		**15,186**		16,582
Cash distributions to minority ownership		**(10,692)**		(13,604)
Ending balance, minority interest	**$**	**22,602**	$	18,108

9. Designated Net Assets

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

		2018		2017
Content	**$**	**149,303**	$	136,133
Digital and content initiatives		**28,167**		28,167
Investment gains		**22,165**		18,334
Roadmap to the future		**14,882**		14,758
Property		**10,411**		4,903
Other		**7,183**		4,808
Strategic investment		**2,283**		2,197
	$	**234,394**	$	209,300

10. Temporarily and Permanently Restricted Net Assets

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

		2018		2017
Programming	**$**	**39,793**	$	64,708
Technical products and services		**68,683**		30,706
Other grants		**33,856**		22,336
Total temporarily restricted net assets	**$**	**142,332**	$	117,750

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

		2018		2017
The Iris and Joseph Pollock Fund	**$**	**4,028**	$	4,028

11. Net Assets Released from Restrictions

Net assets were released from donor restrictions during the years ended June 30, 2018 and 2017 as follows (in thousands):

		2018		2017
Other grants	**$**	**34,224**	$	33,009
Programming		**32,314**		29,189
Technical products and services		**10,886**		10,585
	$	**77,424**	$	72,783

12. 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 FASB 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, 2018 and 2017, the Company had endowment funds totaling $11.9 million and $9.3 million, respectively. Of this total, funds totaling $4.0 million in both 2018 and 2017, 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.

The distribution of endowment net assets between donor restricted and Board designated as of June 30, 2018 and 2017 (in thousands) is as follows:

June 30, 2018	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment fund:				
The Iris and Joseph Pollock Fund	$ -	$ 689	$ 4,028	$ 4,717
Board designated fund:				
PBS Endowment Fund	7,185	-	-	7,185
Total endowment net assets	$ 7,185	$ 689	$ 4,028	$ 11,902

June 30, 2017	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment fund:				
The Iris and Joseph Pollock Fund	$ -	$ 502	$ 4,028	$ 4,530
Board designated fund:				
PBS Endowment Fund	4,810	-	-	4,810
Total endowment net assets	$ 4,810	$ 502	$ 4,028	$ 9,340

Changes in endowment net assets for the years ended June 30, 2018 and 2017 (in thousands):

June 30, 2018	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Beginning of year	$ 4,810	$ 502	$ 4,028	$ 9,340
Contributions and additions	2,050	-	-	2,050
Investment gains, net	325	337	-	662
Distributions	-	(150)	-	(150)
End of year	$ 7,185	$ 689	$ 4,028	$ 11,902

June 30, 2017	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Beginning of year	$ 3,392	$ 65	$ 4,028	$ 7,485
Contributions and additions	936	-	-	936
Investment gains, net	482	437	-	919
Distributions	-	-	-	-
End of year	$ 4,810	$ 502	$ 4,028	$ 9,340

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. Fund deficiencies for permanently restricted endowment funds are shown within unrestricted undesignated investment return, net in the accompanying consolidated statements of activities. There were no funds with a deficiency for the years ended June 30, 2018 and 2017.

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 money market and mutual fund investments. PBS' Investment Committee 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 or second quarter of each fiscal year the PBS Investment Committee 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 of funds, if any, to expend from the endowment fund. The PBS Investment Committee shall follow the expenditure decisions and directives provided by the PBS Foundation Endowment Fund Committee.

13. 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 content expense in the same year the corresponding revenue is recorded. The imputed value of donated broadcast rights was $177.7 million and $133.1 million for the years ended June 30, 2018 and 2017, respectively.

14. Retirement Plans

Retirement benefits are provided for all eligible employees under defined contribution retirement plans (the Plans). Expenses related to the Plans were $4.8 million and $4.7 million in fiscal 2018 and 2017, respectively.

15. 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, 2018, as follows (in thousands):

Years ending June 30,		
2019	$	**8,825**
2020		**8,667**
2021		**3,935**
	$	**21,427**

PBS has an operating lease for its headquarters facilities in Arlington, Virginia. The initial lease term is for 15 years starting March 1, 2006, with renewal options 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 $4.6 million in both fiscal 2018 and 2017.

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 $130.3 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.

16. 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.

17. Fair Value of Financial Instruments

FASB 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 the 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 following table sets forth the Company's financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2018 (in thousands):

Description	Level 1	Level 2	Level 3	NAV	Total
Fixed income funds	**$ 48,792**	**$ -**	**$ -**	**$ -**	**$ 48,792**
U.S. equity securities	**107,662**	**-**	**-**	**-**	**107,662**
Foreign equity securities	**1,064**	**-**	**-**	**-**	**1,064**
Money market funds	**109**	**-**	**-**	**-**	**109**
Fund of funds	**-**	**-**	**-**	**1,428**	**1,428**
	157,627	**-**	**-**	**1,428**	**159,055**
Interest rate swap	**-**	**317**	**-**	**-**	**317**
	$ 157,627	**$ 317**	**$ -**	**$ 1,428**	**$ 159,372**

The following table sets forth the Company's financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2017 (in thousands):

Description	Level 1	Level 2	Level 3	NAV	Total
Fixed income funds	$ 48,345	$ -	$ -	$ -	$ 48,345
U.S. equity securities	109,830	-	-	-	109,830
Foreign equity securities	1,007	-	-	-	1,007
Money market funds	1,260	-	-	-	1,260
Fund of funds	-	-	-	2,125	2,125
	160,442	-	-	2,125	162,567
Interest rate swap	-	(46)	-	-	(46)
	$ 160,442	$ (46)	$ -	$ 2,125	$ 162,521

Investments

The fair value of fixed income funds, U.S. equity securities, foreign equity securities and money market funds are based on quoted market prices at the reporting date for those or similar investments.

The fund of funds (Fund) is valued based on an estimated net asset value per share as a practical expedient. As of June 30, 2018 and 2017, the fair value of the Fund was $1.4 million and $2.1 million, respectively. 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. A significant portion of the Fund is expected to be liquidated in 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 counterparty which is determined using a pricing model. This is the estimate of the amount PBS would receive or pay to settle the interest rate swap at the reporting date.

18. Subsequent Events

The Company has evaluated subsequent events through October 30, 2018, which is the date the consolidated financial statements were available to be issued. The Board has approved liquidation of funds from the long term investments intended for the repayment of the bonds in full, expected to occur on November 1, 2018. No other subsequent events were identified that required adjustment to or disclosure in the consolidated financial statements.