# Public Broadcasting Service and Subsidiaries

## Consolidated Financial Statements and Independent Auditor's Report

Years Ended June 30, 2023 and 2022

The report accompanying these financial statements was issued by
BDO USA, P.C., a Virginia professional corporation, and the U.S. member of
BDO International Limited, a UK company limited by guarantee.

# Public Broadcasting Service and Subsidiaries

## Consolidated Financial Statements
## and Independent Auditor’s Report

Years Ended June 30, 2023 and 2022

## Contents

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# Independent Auditor's Report

To the Board of Directors
**Public Broadcasting Service**
Arlington, Virginia

## Report on the Audit of the Consolidated Financial Statements

### *Opinion*

We have audited the consolidated financial statements of the Public Broadcasting Service and Subsidiaries (the Company), which comprise the consolidated statements of financial position as of June 30, 2023 and 2022, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Public Broadcasting Service and Subsidiaries as of June 30, 2023 and 2022, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### *Basis for Opinion*

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Emphasis of Matter*

As discussed in Note 1 to the consolidated financial statements, the Company has changed its method of accounting for leases for the year ended June 30, 2023 due to the adoption of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 842, *Leases*. Our opinion is not modified with respect to this matter.

*Responsibilities of Management for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the consolidated financial statements are issued or available to be issued.

*Auditor's Responsibilities for the Audit of the Consolidated Financial Statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards,* we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2023 on our consideration of the Public Broadcasting Service and Subsidiaries' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Public Broadcasting Service and Subsidiaries' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Public Broadcasting Service and Subsidiaries' internal control over financial reporting and compliance.

BDO USA, P.C.

November 9, 2023

# Consolidated Financial Statements

# Public Broadcasting Services and Subsidiaries

## Consolidated Statements of Financial Position

| *June 30,* *(in thousands)* | 2023 | 2022 |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash and cash equivalents | **$ 128,412** | $ 144,199 |
| Investments | **36,384** | 34,998 |
| Accounts receivable, net of allowance | **70,726** | 76,111 |
| Grants and contributions receivable | **84,023** | 75,967 |
| Inventory, net | **1,429** | 1,764 |
| Prepaid expenses and other assets | **88,251** | 66,080 |
| **Total current assets** | **409,225** | 399,119 |
| **Noncurrent assets** | | |
| Property and equipment, net | **37,108** | 41,381 |
| Unamortized broadcast rights | **149,115** | 135,659 |
| Investments, net of current portion | **127,346** | 116,879 |
| Operating lease right-of-use assets | **46,587** | - |
| Grants and contributions receivable, net of discount and current portion | **20,111** | 18,681 |
| Other assets | **851** | 1,130 |
| **Total assets** | **$ 790,343** | $ 712,849 |
| **Liabilities and net assets** | | |
| **Current liabilities** | | |
| Accounts payable and accrued expenses | **$ 204,124** | $ 175,189 |
| Cable and license fees payable | **35,024** | 49,823 |
| Operating lease liabilities | **2,996** | - |
| Deferred revenue | **5,228** | 4,998 |
| **Total current liabilities** | **247,372** | 230,010 |
| Operating lease liabilities, net of current portion | **65,560** | - |
| Deferred lease obligations | **-** | 18,635 |
| Annuity liabilities | **89** | 102 |
| **Total liabilities** | **313,021** | 248,747 |
| **Minority interest** | **37,081** | 34,828 |
| **Commitments and contingencies** | | |
| **Net assets** | | |
| Without donor restrictions | | |
| Board designated | **294,564** | 279,463 |
| Undesignated | **37,816** | 38,073 |
| Total without donor restrictions | **332,380** | 317,536 |
| With donor restrictions | | |
| Purpose restrictions | **102,119** | 105,997 |
| Perpetual in nature | **5,742** | 5,741 |
| Total with donor restrictions | **107,861** | 111,738 |
| **Total net assets** | **440,241** | 429,274 |
| **Total liabilities and net assets** | **$ 790,343** | $ 712,849 |

*See accompanying notes to consolidated financial statements.*

# Public Broadcasting Service and Subsidiaries

## Consolidated Statements of Activities

| *Years ended June 30,*<br>*(in thousands)* | 2023 | | | 2022 | | |
|---|---|---|---|---|---|---|
| | **Without Donor Restrictions** | **With Donor Restrictions** | **Total** | Without Donor Restrictions | With Donor Restrictions | Total |
| **Changes in net assets** | | | | | | |
| **Revenues, gains, and other support** | | | | | | |
| Imputed value of donated broadcast rights | **$ 165,165** | **$ -** | **$ 165,165** | $ 173,837 | $ - | $ 173,837 |
| Member assessments | **211,586** | **-** | **211,586** | 203,336 | - | 203,336 |
| Grants and contributions | **7,763** | **101,603** | **109,366** | 7,658 | 105,638 | 113,296 |
| Ventures | **193,933** | **-** | **193,933** | 193,207 | - | 193,207 |
| Investment return, net | **18,390** | **716** | **19,106** | (23,344) | (1,236) | (24,580) |
| Other | **12,141** | **113** | **12,254** | 10,444 | 82 | 10,526 |
| Net assets released from restrictions | **106,309** | **(106,309)** | **-** | 84,134 | (84,134) | - |
| **Total revenues, gains, and other support** | **715,287** | **(3,877)** | **711,410** | 649,272 | 20,350 | 669,622 |
| **Expenses** | | | | | | |
| **Program services** | | | | | | |
| Content and promotion | **405,537** | **-** | **405,537** | 385,293 | - | 385,293 |
| Member services | **13,499** | **-** | **13,499** | 10,248 | - | 10,248 |
| Distribution and information technology | **65,282** | **-** | **65,282** | 63,394 | - | 63,394 |
| Ventures | **140,766** | **-** | **140,766** | 141,055 | - | 141,055 |
| Other | **9,827** | **-** | **9,827** | 3,860 | - | 3,860 |
| **Total program services** | **634,911** | **-** | **634,911** | 603,850 | - | 603,850 |
| **Supporting services** | | | | | | |
| Management and general | **45,109** | **-** | **45,109** | 42,270 | - | 42,270 |
| Fundraising | **2,374** | **-** | **2,374** | 2,082 | - | 2,082 |
| **Total supporting services** | **47,483** | **-** | **47,483** | 44,352 | - | 44,352 |
| **Total expenses** | **682,394** | **-** | **682,394** | 648,202 | - | 648,202 |
| **Change in net assets before minority interest** | **32,893** | **(3,877)** | **29,016** | 1,070 | 20,350 | 21,420 |
| **Minority interest** | **(14,601)** | **-** | **(14,601)** | (15,880) | - | (15,880) |
| **Change in net assets** | **18,292** | **(3,877)** | **14,415** | (14,810) | 20,350 | 5,540 |
| **Net assets,** beginning of year | **317,536** | **111,738** | **429,274** | 332,346 | 91,388 | 423,734 |
| **Cumulative effect of accounting change** | **(3,448)** | **-** | **(3,448)** | - | - | - |
| **Net assets**, end of year | **$ 332,380** | **$ 107,861** | **$ 440,241** | $ 317,536 | $ 111,738 | $ 429,274 |

*See accompanying notes to consolidated financial statements.*

## Public Broadcasting Service and Subsidiaries

## Consolidated Statement of Functional Expenses

| *Year ended June 30, 2023* *(in thousands)* | Program Services | | | | | | Supporting Services | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Content and Promotion | Member Services | Distribution and Information Technology | Ventures | Other | Total Program Services | Management and General | Fundraising | Total Supporting Services | 2023 Total |
| Salaries and wages | $ 23,026 | $ 5,676 | $ 21,139 | $ 12,966 | $ - | $ 62,807 | $ 22,570 | $ 1,467 | $ 24,037 | $ 86,844 |
| Benefits | 8,191 | 2,097 | 7,200 | 5,579 | - | 23,067 | 8,274 | 463 | 8,737 | 31,804 |
| Professional services | 28,230 | 1,169 | 20,889 | 1,308 | 9,682 | 61,278 | 8,943 | 97 | 9,040 | 70,318 |
| Advertising and promotion | 20,768 | 370 | 1 | 14,292 | - | 35,431 | 199 | 97 | 296 | 35,727 |
| Office expense | 158 | 107 | 215 | 457 | - | 937 | 1,039 | - | 1,039 | 1,976 |
| Information technology | 1,214 | 991 | 4,077 | 2,402 | - | 8,684 | 3,512 | - | 3,512 | 12,196 |
| Royalties | 220 | - | - | 84,836 | 65 | 85,121 | (12) | - | (12) | 85,109 |
| Occupancy | 2,026 | 399 | 2,090 | 352 | - | 4,867 | 1,469 | 104 | 1,573 | 6,440 |
| Travel and conferences | 1,289 | 1,989 | 158 | 744 | - | 4,180 | 779 | 146 | 925 | 5,105 |
| Depreciation and amortization | 2,035 | 469 | 1,795 | 1,838 | - | 6,137 | 1,562 | - | 1,562 | 7,699 |
| | 1,230 | - | 374 | - | - | 1,604 | - | - | - | 1,604 |
| Donated broadcast rights | 165,165 | - | - | - | - | 165,165 | - | - | - | 165,165 |
| Connectivity and communications | 3 | 44 | 6,463 | - | - | 6,510 | 512 | - | 512 | 7,022 |
| Program rights | 148,840 | 113 | - | 8,094 | - | 157,047 | 3 | - | 3 | 157,050 |
| Cost of goods sold | 181 | 2 | - | 6,606 | - | 6,789 | - | - | - | 6,789 |
| Others | 2,961 | 73 | 881 | 1,292 | 80 | 5,287 | (3,741) | - | (3,741) | 1,546 |
| | $ 405,537 | $ 13,499 | $ 65,282 | $ 140,766 | $ 9,827 | $ 634,911 | $ 45,109 | $ 2,374 | $ 47,483 | $ 682,394 |

*See accompanying notes to consolidated financial statements.*

# Public Broadcasting Service and Subsidiaries

## Consolidated Statement of Functional Expenses

| *Year ended June 30, 2022* <br> *(in thousands)* | Program Services: Content and Promotion | Program Services: Member Services | Program Services: Distribution and Information Technology | Program Services: Ventures | Program Services: Other | Program Services: Total Program Services | Supporting Services: Management and General | Supporting Services: Fundraising | Supporting Services: Total Supporting Services | 2022 Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Salaries and wages | $ 20,951 | $ 4,955 | $ 19,040 | $ 10,992 | $ - | $ 55,938 | $ 20,499 | $ 1,159 | $ 21,658 | $ 77,596 |
| Benefits | 7,672 | 1,756 | 7,156 | 5,370 | - | 21,954 | 7,673 | 387 | 8,060 | 30,014 |
| Professional services | 13,393 | 763 | 18,391 | 2,996 | 3,203 | 38,746 | 8,227 | 301 | 8,528 | 47,274 |
| Advertising and promotion | 17,598 | 318 | - | 14,306 | - | 32,222 | 54 | 57 | 111 | 32,333 |
| Office expense | 118 | 89 | 323 | 465 | - | 995 | 1,029 | - | 1,029 | 2,024 |
| Information technology | 1,349 | 199 | 4,701 | 2,182 | - | 8,431 | 3,682 | - | 3,682 | 12,113 |
| Royalties | 180 | - | - | 85,591 | 49 | 85,820 | - | - | - | 85,820 |
| Occupancy | 2,214 | 414 | 2,071 | 254 | - | 4,953 | 1,275 | 100 | 1,375 | 6,328 |
| Travel and conferences | 232 | 1,046 | 12 | 273 | 5 | 1,568 | 174 | 78 | 252 | 1,820 |
| Depreciation and amortization | 2,207 | 548 | 2,084 | 2,253 | - | 7,092 | 1,728 | - | 1,728 | 8,820 |
| Grant expense | 1,009 | - | 1,996 | - | 549 | 3,554 | - | - | - | 3,554 |
| Donated broadcast rights | 173,837 | - | - | - | - | 173,837 | - | - | - | 173,837 |
| Connectivity and communications | 16 | - | 6,810 | - | - | 6,826 | 440 | - | 440 | 7,266 |
| Program rights | 141,988 | 120 | - | 6,632 | - | 148,740 | - | - | - | 148,740 |
| Cost of goods sold | 348 | 13 | - | 5,739 | - | 6,100 | - | - | - | 6,100 |
| Others | 2,181 | 27 | 810 | 4,002 | 54 | 7,074 | (2,511) | - | (2,511) | 4,563 |
| | $ 385,293 | $ 10,248 | $ 63,394 | $ 141,055 | $ 3,860 | $ 603,850 | $ 42,270 | $ 2,082 | $ 44,352 | $ 648,202 |

*See accompanying notes to consolidated financial statements.*

# Public Broadcasting Service and Subsidiaries

## Consolidated Statements of Cash Flows

| *Years ended June 30,* | **2023** | 2022 |
|---|---|---|
| *(in thousands)* | | |
| **Cash flows from operating activities:** | | |
| Change in net assets | **$ 14,415** | $ 5,540 |
| **Adjustments to reconcile change in net assets to net cash provided by operating activities:** | | |
| Depreciation and amortization of property and equipment | **7,699** | 8,820 |
| Amortization of broadcast rights | **142,455** | 136,880 |
| Bad debt (recovery) expense | **(73)** | 201 |
| Minority interest | **14,601** | 15,880 |
| Realized gains on sale of investments | **(507)** | (9,092) |
| Unrealized (gains) losses on investments | **(10,592)** | 36,001 |
| Provision for inventory | **153** | 198 |
| Endowment contributions | **(1)** | (99) |
| Change in discount on noncurrent grants and contributions receivable | **682** | (1,340) |
| Noncash lease expense | **2,602** | - |
| Change in present value of annuity liabilities | **(9)** | 22 |
| **Decrease (increase) in assets** | | |
| Accounts receivable | **5,458** | (442) |
| Grants and contributions receivable | **(10,168)** | (25,414) |
| Inventory | **182** | 101 |
| Prepaid expenses and other assets | **(21,892)** | (23,574) |
| Unamortized broadcast rights | **(155,911)** | (152,424) |
| **Increase (decrease) in liabilities** | | |
| Accounts payable and accrued expenses | **28,935** | (42) |
| Cable and license fees payable | **(14,799)** | 9,887 |
| Deferred revenue | **230** | 1,640 |
| Deferred lease obligations | **-** | 2,934 |
| Principal reduction in operating lease liabilities | **(2,716)** | - |
| Annuity liabilities | **(4)** | 26 |
| **Net cash provided by operating activities** | **740** | 5,703 |
| **Cash flows from investing activities:** | | |
| Proceeds from sale of investments | **77,894** | 75,077 |
| Purchases of investments | **(78,648)** | (75,050) |
| Purchases of property and equipment | **(3,426)** | (1,470) |
| **Net cash used in investing activities** | **(4,180)** | (1,443) |
| **Cash flows from financing activities:** | | |
| Endowment contributions | **1** | 99 |
| Cash distributions to minority ownership | **(12,348)** | (4,500) |
| **Net cash used in financing activities** | **(12,347)** | (4,401) |
| **Net decrease in cash and cash equivalents** | **(15,787)** | (141) |
| **Cash and cash equivalents and restricted cash,** beginning of year | **144,199** | 144,340 |
| **Cash and cash equivalents and restricted cash,** end of year | **$ 128,412** | $ 144,199 |
| **Supplemental cash flow information:** | | |
| Income tax paid | **$ 987** | $ 1,086 |
| Noncash investing activity: | | |
| Leasehold improvements acquired through tenant improvement allowance paid by landlord | **$ -** | $ (10,710) |

*See accompanying notes to 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, 2023 and 2022.

Public Media Distribution, LLC (PBSd) was formed on November 5, 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.

PBS UK, LLC (PBS UK) was formed on March 16, 2011, under the laws of the State of Delaware. PBS UK supports public broadcasting through distribution of high-quality content in the United Kingdom. Total consideration paid and the assets and liabilities acquired were immaterial to the consolidated financial statements.

### *Principles of Consolidation*

The consolidated financial statements include the accounts of PBS, PBSE, PBS Foundation, PBS Digital, LLC, PBSd, and PBS UK (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).

### *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:

> ***Net assets without donor restrictions*** **-** Net assets that are not subject to donor-imposed stipulations. Included within net assets without donor restrictions are amounts that have been designated by the Board of Directors to support public broadcasting.
>
> ***Net assets with donor restrictions*** **-** Net assets subject to donor-imposed stipulations that will be met either by actions of the Company pursuant to those stipulations, the passage of time and/or required to be maintained in perpetuity by the Company. Expirations of donor restrictions on net assets (i.e., the donor-imposed purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions. Assets authorized for use by the Endowment Committee for purposes meeting the donor-imposed stipulations are reported as net assets released from restrictions.

Revenues, gains, and other support are reported as changes in net assets without donor restrictions unless their use is limited by donor-imposed stipulations, in which case they are reported as changes in net assets with donor restrictions. Expenses are reported as decreases in net assets without donor restrictions.

### *Endowment*

The PBS Endowment Fund consists of individual funds established by 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 increases in net assets with donor restrictions. Earnings from all donor-restricted funds are classified as donor restricted until such time as they are appropriated for use or reclassified as net assets without donor restrictions. Both the principal and earnings of Board designated endowment funds are classified as net assets without donor restrictions. Investment income and investment gains and losses are attributed to individual endowment funds in proportion to their pro rata share of the investment balance.

### *Cash Equivalents*

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. However, the Company considers all cash equivalents such as money market funds held in brokerage accounts to be investments.

### *Investments*

Investments in debt and equity securities are recorded at fair value based on quoted market prices. Unrealized and realized gains and losses, interest and dividends are recorded in investment return in the consolidated statements of activities. Interest and dividend income are accounted for on an accrual basis.

Investments that are held with long-term maturities are classified as noncurrent in the consolidated statements of financial position.

### *Accounts Receivable*

Accounts receivable consists primarily of amounts due from member stations 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 $0.2 and $0.3 million for the years ending June 30, 2023 and 2022, respectively. Uncollectible amounts are written off when all efforts to collect these receivables have been exhausted.

### *Grants and Contributions Receivable*

The Company receives funding from the U.S. government, individuals, and organizations for direct and indirect program costs, payable in future periods. This funding is subject to contractual restrictions, which must be met through the performance of program activities or from incurring qualifying expenses for programs. Grants and contributions that are expected to be collected within one year are recorded at net realizable value, and those that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. The Company regularly evaluates the ability of its donors to pay amounts due and makes appropriate provisions for doubtful accounts, if necessary. The Company concluded that no allowance for doubtful accounts was necessary as of June 30, 2023 and 2022.

### *Inventory*

Inventory, which primarily consists of DVDs, Blu-rays, and print packaging, is stated at the lower of average cost or net realizable value. A specific reserve for obsolete inventory is determined by evaluating units on hand against prior years' sales, any plans to discontinue specific titles, or expected future demand. A general reserve is calculated for any remaining inventory on hand that exceed the prior year two-year demand. The Company wrote off $488,071 and $767,400 in inventory for the years ended June 30, 2023 and 2022, respectively.

Inventory consisted of the following as of June 30 (in thousands):

| | **2023** | 2022 |
|---|---|---|
| Finished goods | **$ 2,406** | $ 3,076 |
| Reserve for obsolescence | **(977)** | (1,312) |
| Inventory, net | **$ 1,429** | $ 1,764 |

### *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 (over $10,000 for PBSd) 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.

Costs of internal-use software and website development are accounted for in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 350-40, *Internal Use Software* and FASB ASC 350-50, *Website Development Costs*. The guidance requires that computer software and website development costs be expensed as they are incurred during the preliminary project stage. Once the capitalization criteria of ASC 350-40 and ASC 350-50 have been met, external direct costs of materials and services consumed in developing or obtaining internal-use software, including website development costs, payroll and payroll-related costs for employees who are directly associated with and who devote time to the internal-use computer software are capitalized.

As of June 30, 2023, the Company has accumulated $972,000 in direct costs and services consumed for internal-use software and website development and are reflected in the accompanying consolidated statements of financial position.  There was no amount incurred for internal-use software and website development as of June 30, 2022.

### *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.

### *Unamortized Broadcast Rights*

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.

***Leases – (Operating Right-of-Use Assets and Lease Liabilities)***

The Company adopted FASB Accounting Standards Update (ASU) No. 2016-02, *Leases* (Topic 842) (ASU 2016-02), and the additional ASUs issued to clarify and update the guidance in ASU 2016-02 (collectively, “ASC Topic 842”) on July 1, 2022 (the Adoption Date).

Leases arise from contractual obligations that convey the right to control the use of identified property, plant, or equipment for a period in exchange for consideration. At the inception of the contract, the Company determines if an arrangement contains a lease based on whether there is an identified asset and whether the Company controls the use of the identified asset. The Company also determines whether the lease classification is an operating or financing lease at the commencement date.

A right-of-use asset represents the Company’s right to use an underlying asset and a lease liability represents the Company’s obligation to make payments during the lease term. Right-of-use assets are recorded and recognized at commencement for the lease liability amount, adjusted for initial direct costs incurred and lease incentives received. Lease liabilities are recorded at the present value of the future lease payments over the lease term at commencement. The implicit rates for the Company’s leases are not readily determinable; therefore, the Company elected to use a risk-free discount rate at the lease commencement date for all new leases and at the Adoption Date.

The Company’s corporate office operating leases typically include non-lease components such as common area maintenance (CAM) costs, utilities, and other maintenance costs. The Company elected not to separate non-lease components with lease payments for the purpose of calculating lease right-of-use assets and liabilities. Non-lease components that are neither fixed nor variable based on an index or rate are expensed as incurred as variable lease payments. The Company’s CAM, tax and electricity costs are expensed as incurred, as they are a variable cost that is not based on an index or rate.

Certain leases contain options to extend the lease term at prevailing market rates at the time of the renewal. Because management cannot predict the future economic landscape, it is not reasonably certain to exercise the extension options. Therefore, the Company uses the base, non-cancelable, lease term when recognizing the lease assets and liabilities. The Company’s lease agreements do not contain any material residual value guarantees or material restrictive covenants.

As a matter of policy, the Company elected to exclude leases with terms of 12 months or less (Short-Term) from the consolidated statements of financial position. Short-Term lease expense is recognized on a straight-line basis over the expected term of the lease.

For contracts existing as of the Adoption Date, the Company elected the practical expedient and did not reassess whether any expired or existing contracts are considered or contain leases, lease classification for any expired or existing leases, and initial direct costs for any existing leases. The Company does not have leases that contain land easements; therefore, did not elect the related optional practical expedient. The Company also elected to apply the practical expedient to use hindsight in determining lease term.

***Cable and License Fees Payable***

As a provider of programming to the American public through partnership with member stations, a provision of the Copyrights Act obligates the Company to distribute cable copyright and license fees royalties for various title productions for a given calendar year to eligible producers. The amount of calendar year royalties is authorized by the Copyright Royalty Board. As a result, the Company acts as a pass through for its producer stakeholders and has a comprehensive producer validation and calculation process to determine distribution amounts following receipt of funds for a given calendar year.

The receipt of funds for each calendar year is recorded as a liability in the accompanying consolidated statements of financial position pending distribution to eligible producers, which is reduced when payments are made.

***Revenue Recognition***

Revenue recognized in accordance with FASB ASC Topic 958 include the following:

***Imputed value of donated broadcast rights*** – In administering the National Program Service, PBS acquires and receives program productions and the related broadcast rights at cost which is estimated to be lower than fair market value because the production was directly funded in part by corporate and foundation underwriting.

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. As such, imputed value of donated broadcast rights meets recognition criteria for contributed non-financial assets under ASU 2020-07, *Presentation and Disclosures by Not-For-Profit Entities for Contributed Nonfinancial Assets* (Topic 958).

During 2023 and 2022, as reported by the producers, the imputed value of donated broadcast rights is recorded for the total amount of underwriting funds provided directly to producers for specific programs. Broadcast rights have donor-imposed purpose restrictions for use in PBS' content programming area.

***Grants and contributions*** – Contributions, including unconditional promises to give, are recognized as revenues in the period received or pledged. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of assets, other than cash, are recorded at their estimated fair value at the date of gift.

The Company had no conditional contributions as of June 30, 2023 and 2022, other than conditional contributions from federal sponsors.

Grants and contributions include grants awarded by federal sponsors, which are generally considered nonreciprocal transactions restricted by sponsors for certain purposes and are recognized as revenue when qualifying reimbursable expenses have been incurred and conditions under the agreements are met. Federal grants are considered conditional contributions.

The remaining award balance on federal grants was approximately $15,056,314 and $22,048,760 as of June 30, 2023 and 2022, respectively. This award balance is not recognized as an asset and will be recognized as revenue as the project progresses and conditions are met, as allowable expenses are incurred. For the years ended June 30, 2023 and 2022, there were no refundable donor advances recorded related to federal grants since the Company typically requests payment only after obligations are incurred. For contributions made, conditional grants and contributions revenue is recognized by the Company when the condition is satisfied by the grantee.

The Company recognizes all other revenue in accordance with FASB ASC Topic 606 when it satisfies a performance obligation by transferring a promised good to, or performing a service for, a customer. The amount of revenue recognized reflects the consideration the Company expects to receive in exchange for satisfying distinct performance obligations. If a performance obligation does not meet the criteria to be considered distinct, the Company combines it with other performance obligations until a distinct bundle of goods or services exists. Other than accounts receivable, no amounts have been recorded in the Company's consolidated statements of financial position with respect to contract assets as no material costs to obtain or fulfill a contract existed at that date. Amounts received in advance of services performed, but not yet earned, are held as prepayments and retainers, and are recorded as deferred revenue. Sales and other taxes the Company collects concurrent with revenue-producing activities are excluded from revenue. Shipping and handling fees charged to customers are reported within revenue.

***Member assessments*** – PBS member stations pay an annual nonrefundable member assessment for access to programming and non-programming services. Programming services include the broadcast rights of the National Program Service, PBS PLUS and PBS Fundraising Programming, which consists of approximately 2,017 hours of programming and related promotion and support. Non-programming related services include digital products, education, and development.

Member assessments are invoiced twice a year, based on amounts determined under the Company's dues formula. The membership period is July 1 – June 30, which corresponds with the Company's fiscal year. Revenue from member assessments is recognized over time during the membership year as membership benefits are provided, resulting in no related deferred revenue balance for the current annual membership period at year end. Eighty-five percent of the annual member assessment is due by November 30 and the remaining fifteen percent is due by March 31.

***Ventures*** – In the following table, ventures revenue is disaggregated by type of services provided and consist of the following as of June 30 (in thousands):

| | **2023** | 2022 |
|---|---|---|
| Licensing and royalties | **$ 183,156** | $ 179,785 |
| Product sales | **9,506** | 12,228 |
| Other ventures | **1,271** | 1,194 |
| Total ventures revenue | **$ 193,933** | $ 193,207 |

The Company recognizes significant financing components when payment is received one year or more after the initial revenue recognition. More detailed information about the revenue recognition policies for the above significant distribution revenue sources follows:

*Licensing and royalties* – Licensing and royalties are generated from the distribution of media content worldwide. Licensing revenue, which primarily consists of content distributed via subscription video on demand (SVOD), SVOD Channels, transactional video on demand (TVOD), and international program sales. Revenue from licensing is recognized at the point in time when the license period has started, all content assets have been delivered to the customer, and the usage has occurred, if applicable. Revenue from royalties is recognized over time as the customer receives the benefits over the period of the royalty term or as the subsequent sale or usage occurs for sales-based or usage-based royalties.

*Product sales* – Product sales primarily consist of sales of DVDs, Blu-rays, and merchandise. Revenue from product sales is recognized at a point in time when ownership is transferred.

*Other ventures* – Other ventures revenue, which includes revenue from contracts that are outside the normal course of the Company's distribution activities, are received and recognized at a point in time when the goods and services are rendered, and typically occur in the same fiscal year.

***Other Revenue*** – In the following table, other revenue disaggregated by type of services provided, consists of the following as of June 30 (in thousands):

| | **2023** | 2022 |
|---|---|---|
| Sponsorship and underwriting | **$ 9,122** | $ 6,845 |
| Meetings and events | **1,032** | 54 |
| Technical services | **385** | 549 |
| Satellite services | **138** | 613 |
| Miscellaneous | **1,577** | 2,465 |
| Total other revenue | **$ 12,254** | $ 10,526 |

More detailed information about the revenue recognition policies for the above significant other revenue sources follows:

*Sponsorship and underwriting* – Sponsorship and underwriting revenue includes amounts received in exchange for recognition within the Company's television or digital programming. The Company recognizes sponsorship and underwriting revenue at the time the spots are aired on television or included in online programming.

*Meetings and events* – Meetings and events revenue includes amounts paid by or on behalf of meeting participants and sponsors. Registration fees are based on published fixed rates and collected either at the time of registration, in advance of the meeting resulting in a deferred revenue balance, or at the time that the meeting or event takes place and immediately recognized as revenue.

Meeting sponsorships, which are generally considered nonreciprocal transactions, are recognized when the conditions associated with providing the sponsorship are met at the meeting. As such, all meeting revenue is recognized upon completion of the respective meeting.

*Technical services* – The Company provides technical services to third parties including stations, producers, and production houses. Technical service fees are fixed at the time of purchase based on price listings or negotiated rates. Revenue is recognized when the work is completed, and the customer is invoiced.

*Satellite services* – Satellite services revenue includes commercial and non-commercial revenues generated from the sale of satellite capacity or uplink access to member stations as well as the sale of physical space on the Company's antenna to third party customers. Revenue from satellite services is based on a fixed contract price and billed either monthly or annually based on the contract provisions. Revenue from satellite services is recognized ratably over the contract period as services are provided.

*Miscellaneous* – Miscellaneous revenue, which includes various items ancillary to the Company's operations, are received and recognized when the goods and services are rendered, and typically occur in the same fiscal year.

*Variable Consideration*

The nature of the Company's business gives rise to variable considerations, including rebates, allowances, and returns that generally decrease the transaction price, which reduces revenue. These variable amounts are generally credited to the customer, based on product returns or price concessions. Variable consideration is estimated at the most likely amount that is expected to be earned. Estimated amounts are included in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will occur. Estimates of variable consideration are based upon historical experience and known trends.

***Deferred Revenue***

Deferred revenue represents revenues received in advance, which will be recognized in future periods as they are earned.

Deferred revenue consists of the following as of June 30 (in thousands):

| | **2023** | 2022 |
|---|---|---|
| Sponsorship and underwriting | **$ 4,217** | $ 3,301 |
| Licensing and royalties | **1,011** | 1,034 |
| Membership assessments | **-** | 635 |
| Other | **-** | 28 |
| Total deferred revenue | **$ 5,228** | $ 4,998 |

Substantially all amounts deferred as of June 30, 2022, were recognized during the year ended June 30, 2023.

***Advertising Expenses***

The Company expenses the costs of advertising as incurred. Total advertising expenses were $35.7 million and $32.3 million for the years ended June 20, 2023 and 2022, respectively.

***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 and PBS Digital, LLC are treated as disregarded entities for tax purposes, and included on the tax returns of PBS.

PBS' incurred $255,000 and $170,000 in income tax expense for unrelated business income for the years ended June 30, 2023 and 2022, respectively. As of June 30, 2023 and 2022, PBS has not recorded a deferred tax asset for net operating loss carry forwards, since their realization is uncertain.

Under U.S. GAAP, 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, 2023 and 2022, PBSd recognized interest and penalties of $11,231 and $1,534, respectively. The Company is still open to examination by taxing authorities from fiscal year 2020 forward.

### *Allocation of Costs*

The costs of providing the Company's programs and other activities have been summarized on a functional and natural basis in the accompanying consolidated statements of functional expenses. Expenses that can be identified with a specific program or supporting service are charged directly according to their natural expenditure classifications. Certain costs common to multiple functions have been allocated among the various functions benefited. Management and general expenses include those costs that are not directly identifiable with any specific function, but which provide for the overall support and direction of the Company. Accordingly, certain salaries and wages, and benefits, occupancy, office, and depreciation and amortization expenses have been allocated among program services, management and general, and fundraising.

The expenses that have been allocated include the following:

| Expense | Method of Allocation |
|---|---|
| Office, depreciation and amortization, and occupancy costs | Full Time Headcount Equivalent |
| Salaries and wages, and benefits | Salary Expense by Project and Cost Center |

### *Use of Estimates in the Preparation of Consolidated 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 amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated 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.

### *Accounting Pronouncements Adopted*

In February 2016, the FASB issued ASU 2016 - 02, *Leases (*Topic 842), which is the leasing standard for both lessees and lessors. Under this update, a lessee will recognize lease assets and liabilities on the consolidated statements of financial position for all arrangements with terms longer than 12 months. Lessor accounting remains largely consistent with the existing U.S. GAAP. This ASU is effective for fiscal years beginning after December 15, 2021. The provisions of this ASU must be applied on a retrospective basis for all years presented although certain optional practical expedients are available. The Company adopted this ASU effective July 1, 2022.

Upon the adoption of Topic 842 on July 1, 2022, the Company recorded an initial right-of-use asset of $47.8 million, an initial lease liability of $69.8 million, and a reduction of deferred rent of $18.6 million related to its existing office lease (see Note 17).

***Accounting Pronouncements Issued but Not Adopted Yet***

In June 2016, the FASB issued ASU 2016 - 13, *Financial Instruments-Credit Losses* (Topic 326), which requires entities to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. This replaces the existing incurred loss model and is applicable to the measurement of credit losses on financial assets measured at amortized cost. This guidance is effective for fiscal years beginning after December 15, 2022. Early application is permitted. The Company is currently evaluating this ASU to determine the impact, if any, on its consolidated financial statements and disclosures.

***Reclassifications***

Certain prior year amounts have been reclassified in the consolidated financial statements and accompanying notes to conform to the current year presentation.

## 2. Liquidity and Availability

The Company's financial assets available within one year of the consolidated statements of financial position date for general expenditure without donor or other restrictions limiting their use are as follows (in thousands):

| | 2023 | 2022 |
|---|---|---|
| Cash and cash equivalents | **$ 128,412** | $ 144,199 |
| Investments | **163,730** | 151,877 |
| Accounts receivable, net of allowance | **70,726** | 76,111 |
| Grants and contributions receivable | **104,134** | 94,648 |
| Financial assets, as of June 30 | **467,002** | 466,835 |
| Less those unavailable for general expenditures within one year, due to: | | |
| Donor imposed restrictions: | | |
| Restricted by donor with purpose restrictions | **(107,861)** | (111,738) |
| Board designated endowment fund | **(14,183)** | (11,326) |
| Total financial assets available to meet cash needs for general expenditures within one year | **$ 344,958** | $ 343,771 |

The Company structures its financial assets to be available to meet its cash flow needs by preparing quarterly financial forecasts that analyze revenue and expense projections, controlling operating and capital expenditures, and closely managing daily receipts and cash disbursements. The goal of the steps outlined above is to optimize the sources and uses of available funds for programs and operations based on the Company's projected cash flow.

Endowment funds consist of donor-restricted endowments and board designated endowments. Income from donor-restricted endowments that are restricted for specific purposes are not available for general expenditure. As described in Note 15, a determination of the amount available for distribution is performed annually utilizing the calculation provided in the Endowment Fund Expenditure and Accumulation Policy.

The Company has $14.2 million and $11.3 million in board designated endowment funds, as of June 30, 2023 and 2022, respectively, which are available, with board approval, to meet cash needs for general expenditure within one year of the date of the consolidated statements of financial position. The remainder of total Board designated net assets are immediately available to meet cash needs for general expenditure towards the execution of management's strategic priorities that include the acquisition and promotion of content for the National Program Service and are available for general expenditure. On an annual basis, management reports the usage of the board designated net assets to the board.

Although the Company does not intend to spend the long-term investments in excess of the annual spending rule, these amounts could be made available, if necessary.

As described in Note 10, the Company has a credit facility with a committed line-of-credit with availability of up to $50.0 million, which it could draw upon in the event of an unanticipated liquidity need. The Company also invests excess cash in short-term investments and money market funds.

## 3. Description of Functional Activities

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

***Content and Promotion*** – A core function under PBS' mission as a multi-platform media organization and represents costs associated with the diverse content offered to its 151-member public television licensees. PBS' wide array of content expands the minds of children, incudes documentaries that enlighten the public on new worlds, non-commercialized news programs that keep citizens informed on world events and cultures and programs that expose America to the worlds of music, theater, dance, and art.

As America's largest classroom, PBS is available to all of America's children and offers educational media that helps prepare children for success in school and in life. PBS is committed to bringing the power of media into the classroom and helping educators to engage students in new and different ways.

It also 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 services provided to PBS' member stations, including digital products and services, development, and copyright administration.

***Distribution and Information Technology*** – Represents Network, Media, and Satellite Operation Centers handling, technical evaluation, and other pre-transmission processing of all program video; program origination transmission including operational support for news and other live event coverage, and the scheduling and logging of all satellite feeds. This expense category also includes other technical research and planning, and the oversight, lease, and acquisition of satellite capacity.

***Ventures*** – Represents activities associated with marketing and selling programs across multiple platforms, including subscription video-on-demand, digital content, producing and manufacturing physical goods such as DVD and Blu-ray products and program-related products; the licensing, development, and distribution of interactive products; the licensing of video content to commercial online and mobile service providers; and online sponsorship activities.

***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. Cable copyright royalties and overhead cost recoveries are netted against other expenses in the consolidated statements of functional expenses.

***Fundraising*** – Represents costs incurred to raise funds and perform activities in support of PBS' mission, the vast majority of which is incurred by PBS Foundation. Acting collaboratively and cooperatively with PBS member stations, the Foundation works to secure the extraordinary funding necessary to maintain and enhance PBS' commitment to serving the American public through public media.

## 4. Concentrations of Credit Risk

The Company maintains its operating cash balances at a financial institution, which are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 per depositor. 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 58% and 53% of the Company's grants and contributions receivable as of June 30, 2023 and 2022, respectively, are due from three grantors. Approximately 34% and 38% of the Company's trade accounts receivable for the years ended June 30, 2023 and 2022, respectively, were due from one customer for 2023 and 2022. Approximately 22% and 23% of the Company's revenues during both fiscal years 2023 and 2022, were generated from one customer. The Company believes the credit risk is mitigated based on a long history with these grantors and customers, and management's ongoing considerations around collectability of its receivables. The credit risk with respect to the remaining accounts receivable is limited because the Company deals with many customers over a wide geographic area.

## 5. Cash and Cash Equivalents

As of June 30, 2023 and 2022, the Company had $70.2 million and $51.0 million, respectively, in funds received with donor restrictions due to purpose restrictions 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.

## 6. Investments

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

| | | 2023 | | 2022 |
|---|---|---|---|---|
| *Short Term:* | | | | |
| Fixed income funds | $ | **36,000** | $ | 34,998 |
| U.S. equity securities | | **309** | | - |
| Money market funds | | **75** | | - |
| | | **36,384** | | 34,998 |
| *Long Term:* | | | | |
| U.S. equity securities | | **91,384** | | 86,376 |
| Fixed income funds | | **30,965** | | 29,894 |
| Money market funds | | **4,341** | | 563 |
| Foreign equity securities | | **656** | | 46 |
| | | **127,346** | | 116,879 |
| Total investments | $ | **163,730** | $ | 151,877 |

Net investment return for the years ended June 30, 2023 and 2022 consist of the following (in thousands):

| | | 2023 | | 2022 |
|---|---|---|---|---|
| Interest and dividends, net | $ | **8,007** | $ | 2,329 |
| Realized gains | | **507** | | 9,092 |
| Unrealized gains (losses) | | **10,592** | | (36,001) |
| Total investment return, net | $ | **19,106** | $ | (24,580) |

Interest and dividends are reported net of related expenses, such as custodial, commission, and investment advisory fees.

## 7. Fair Value of Financial Instruments

U.S. GAAP 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 inputs that are most observable be used when available. Observable inputs are those 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 those 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. 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.

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 the annuity liabilities is estimated using a discounted cash flow analysis based on the current U.S. Treasury rate for the applicable term.

Level 3 - Valuation based on inputs that are unobservable and reflect management's best estimate of what market participants would use as fair value.

For gifts that establish charitable gift annuities, the contributed assets are recognized at fair value using quoted market prices at the date of the annuity agreements. An annuity liability is recognized for the present value of future cash flows expected to be paid to the donor or the donor's designee. Present values are calculated using average U.S. Treasury bill rates and donors' life expectancies. Liabilities are adjusted during the term of the annuities for payments, accretion of discounts and changes in life expectancies. The Foundation uses the 2012 Individual Annuity Reserving table compiled from the National Association of Insurance Commissioners for life expectancies.

The following table sets forth the Company's financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2023 (in thousands):

| **Description** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| Assets: | | | | |
| U.S. equity securities | **$ 91,693** | **$ -** | **$ -** | **$ 91,693** |
| Fixed income funds | **66,965** | **-** | **-** | **66,965** |
| Money market funds | **4,416** | **-** | **-** | **4,416** |
| Foreign equity securities | **656** | **-** | **-** | **656** |
| Total assets, at fair value | **$ 163,730** | **$ -** | **$ -** | **$ 163,730** |
| Annuity liabilities | **$ -** | **$ 89** | **$ -** | **$89** |

The following table sets forth the Company's financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2022 (in thousands):

| **Description** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| Assets: | | | | |
| U.S. equity securities | $ 86,376 | $ - | $ - | $ 86,376 |
| Fixed income funds | 64,892 | - | - | 64,892 |
| Money market funds | 563 | - | - | 563 |
| Foreign equity securities | 46 | - | - | 46 |
| Total assets, at fair value | $ 151,877 | $ - | $ - | $ 151,877 |
| Annuity liabilities | $ - | $ 102 | $ - | $ 102 |

## 8. Grants and Contributions Receivable

The anticipated cash flows from grants and contributions receivable consist of the following as of June 30 (in thousands):

| | 2023 | 2022 |
|---|---|---|
| Unconditional promises to give expected to be collected in: | | |
| Less than one year | **$ 84,023** | $ 75,967 |
| One to five years | **22,351** | 20,239 |
| Subtotal | **106,374** | 96,206 |
| Less unamortized discount | **(2,240)** | (1,558) |
| Grants and contributions receivable, net | **$ 104,134** | $ 94,648 |

The discount rates used in determining the net present value of noncurrent contributions range from 0.47% to 5.0%.

## 9. 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):

| | 2023 | 2022 |
|---|---|---|
| Land and building | **$ 30,494** | $ 30,432 |
| Broadcasting equipment | **83,699** | 81,926 |
| Furniture and equipment | **7,496** | 7,442 |
| Computer and software | **53,123** | 53,035 |
| Software and website development costs | **972** | - |
| Mobile applications | **2,154** | 2,154 |
| Leasehold improvements | **15,262** | 15,023 |
| | **193,200** | 190,012 |
| Less accumulated depreciation and amortization | **(156,092)** | (148,631) |
| | **$ 37,108** | $ 41,381 |

Depreciation and amortization of property and equipment amounted to $7.7 million and $8.8 million for the years ended June 30, 2023 and 2022, respectively. The Company disposed of fully depreciated property and equipment amounting to $0.2 million and $0.7 million for the years ended June 30, 2023 and 2022, respectively.

## 10. Debt

***Line-of-Credit***

PBS has a credit facility with a committed line-of-credit with availability of up to $50.0 million, which was amended in May 2022 with an expiration date of May 31, 2024. The line-of-credit incurs interest at the sum of the One-Month Bloomberg Short-Term Bank Yield Index + 0.675% and has an unused balance fee of 0.15%. Interest expense related to the line-of-credit was zero in both fiscal years 2023 and 2022. As of June 30, 2023 and 2022, there was no amount outstanding on the line-of-credit facility.

PBS is subject to certain financial covenants under the line-of-credit agreement. All covenants have been met by PBS as of June 30, 2023 and 2022.

## 11. 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, 2023 and 2022 consists of the following (in thousands):

| | **2023** | 2022 |
|---|---|---|
| Beginning balance, minority interest | **$ 34,828** | $ 23,448 |
| Share of PBSd fiscal year net income | **14,601** | 15,880 |
| Cash distributions to minority ownership | **(12,348)** | (4,500) |
| Ending balance, minority interest | **$ 37,081** | $ 34,828 |

## 12. Net Assets Without Donor Restrictions - Board Designated Net Assets

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

| | **2023** | 2022 |
|---|---|---|
| Content | **$ 174,522** | $ 159,897 |
| Roadmap to the future | **63,523** | 56,972 |
| Investment gains | **31,288** | 24,032 |
| PBS Foundation endowment fund | **14,183** | 11,326 |
| Digital and content initiatives | **5,346** | 8,995 |
| PBS Foundation Board designated | **3,226** | 3,227 |
| Strategic Investment | **2,476** | 2,476 |
| Property | **-** | 12,538 |
| Total net assets without donor restrictions – Board designated | **$ 294,564** | $ 279,463 |

## 13. Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes as of June 30 (in thousands):

| | 2023 | 2022 |
|---|---|---|
| **Subject to expenditure for specified purpose:** | | |
| Content | $ 10,969 | $ 11,025 |
| Technical products and services | 35,052 | 36,794 |
| Other grants | 56,098 | 58,178 |
| | 102,119 | 105,997 |
| **Not subject to appropriation or expenditure:** | | |
| Original donor-restricted endowment amount and amounts required to be retained by donor | 5,742 | 5,741 |
| Total net assets with donor restrictions | $ 107,861 | $ 111,738 |

## 14. Net Assets Released from Restrictions

Net assets were released from donor restrictions during the years ended June 30, 2023 and 2022 as follows (in thousands):

| | 2023 | 2022 |
|---|---|---|
| **Purpose restrictions accomplished:** | | |
| Content | $ 29,066 | $ 27,315 |
| Technical products and services | 22,539 | 24,212 |
| Other grants | 54,704 | 32,607 |
| Total restrictions released | $ 106,309 | $ 84,134 |

## 15. 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.

**Description of Endowment Funds**

The Company has both donor-restricted and Board designated endowment funds.

*Donor-Restricted Endowment Funds:*

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

News, Journalism, and Public Affairs Fund of the PBS Endowment Fund: To support news, journalism, and public affairs programming, particularly in the areas of investigative journalism found in programs like PBS NewsHour and FRONTLINE, broadcast by PBS.

*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 as of June 30, 2023 and 2022 (in thousands) are as follows:

| **June 30, 2023** | **Without Donor Restrictions** | **With Donor Restrictions** | **Total** |
|---|---|---|---|
| Donor-restricted endowment fund | $ **-** | $ **6,960** | $ **6,960** |
| Board designated endowment fund | **14,183** | **-** | **14,183** |
| Total endowment net assets | $ **14,183** | $ **6,960** | $ **21,143** |

| **June 30, 2022** | **Without Donor Restrictions** | **With Donor Restrictions** | **Total** |
|---|---|---|---|
| Donor-restricted endowment fund | $ - | $ 6,319 | $ 6,319 |
| Board designated endowment fund | 11,326 | - | 11,326 |
| Total endowment net assets | $ 11,326 | $ 6,319 | $ 17,645 |

Changes in endowment net assets for the years ended June 30, 2023 and 2022 (in thousands):

| **June 30, 2023** | **Without Donor Restrictions** | **With Donor Restrictions** | **Total** |
|---|---|---|---|
| Beginning of year | $ **11,326** | $ **6,319** | $ **17,645** |
| Contributions and additions | **1,530** | **1** | **1,531** |
| Investment return, net | **1,327** | **640** | **1,967** |
| End of year | $ **14,183** | $ **6,960** | $ **21,143** |

| **June 30, 2022** | **Without Donor Restrictions** | **With Donor Restrictions** | **Total** |
|---|---|---|---|
| Beginning of year | $ 12,912 | $ 7,690 | $ 20,602 |
| Contributions and additions | 595 | 99 | 694 |
| Investment return, net | (2,181) | (1,237) | (3,418) |
| Distributions | - | (233) | (233) |
| End of year | $ 11,326 | $ 6,319 | $ 17,645 |

### Funds with Deficiencies

The Company is subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA) of the Commonwealth of Virginia. 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. These deficiencies result from unfavorable market fluctuations that erode the accumulated gains of the endowments restricted in perpetuity, as well as continued appropriation for certain programs to maintain the spending power of the programs. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the Company considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the applicable donor gift instrument.

In accordance with the Endowment Fund Expenditure and Accumulation Policy, the Endowment Fund Committee of PBS Foundation's Board of Directors has interpreted UPMIFA to allow spending, at their discretion, on underwater endowments to maintain the spending power of programs in any given year. The Company considers the following factors in making the determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Company and (7) the Company's investment policies. Temporary deficiencies of this nature are reported as net assets with donor restrictions. Future gains restore the balance of the endowment to be maintained in perpetuity to return the individual endowment funds to their required levels as stipulated by the donors or UPMIFA. There were no funds with a deficiency as of June 30, 2023 and 2022.

### 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 equity securities, fixed income and money market funds. 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.

## 16. Retirement Plans

Retirement benefits are provided for all eligible employees under defined contribution retirement plans (the Plans). Expenses related to the Plans were \$6.1 million and \$5.6 million in fiscal years 2023 and 2022, respectively.

## 17. Lease

PBS has an operating lease for its headquarters facility in Arlington, Virginia. The lease commenced on September 26, 2020, and the initial term ends on August 31, 2036. In addition to base rent, PBS is required to pay its pro rata share of real estate taxes and operating expenses. The lease contains a 16-month rent abatement period and a tenant improvement allowance. There is one option to renew for a single 5-year term, as well as an option for a short-term extension for six months. PBS does not consider the exercise of either of these options to be reasonably certain and has not reflected the option periods in the lease term and lease payments. The lease contains no residual value guarantee and is based solely on fixed payment arrangements.

PBSd operating lease commenced effective January 1, 2023, with a five-year term. PBSd recorded an initial right-of-use asset and lease liability of \$1.4 million on commencement date.

All lease agreements for the year ended June 30, 2023, are accounted for under ASC Topic 842; for the year ended June 30, 2022, all leases were accounted for under the previous lease standard.

Upon adoption of ASC Topic 842 and as discussed in Note 1, the Company elected numerous practical expedients with respect to leases existing as of July 1, 2022.

Rental payments under these leases include base rental amounts for the terms of each lease unless the lease contains variable costs based (e.g., utilities, real estate taxes, operating expenses such as janitorial and common area maintenance, water, and insurance) on an index or rate. If a lease does include indexed or variable costs at a specific rate, the Company include those costs as part of operating lease expense.

Other leases contain variable costs for expenses which are not based on an index or rate. These variable lease payments are determined based on actual expenses incurred by the lessor and passed to the Company on a periodic basis. The Company expenses these non-lease components as incurred.

A right-of-use assets of \$46.6 million and a lease liabilities of \$68.6 million are recorded as of June 30, 2023, in the accompanying consolidated statements of financial position for these operating leases.

PBS also has lease agreements for storage space and copier equipment. The total payments for these leases are not material to the consolidated financial statements, and they are expensed as paid.

Lease expense totaled $4.8 million for the year ended June 30, 2023, and is included as part of occupancy costs in the consolidated statements of functional expenses.

Leases include fixed rental payments and others include variable rental payments. In 2023, the Company recognized rent expense associated with its leases as follows:

| *Year ended June 30,* | | **2023** |
|---|---|---|
| Operating lease cost: | | |
| Fixed rent expense | $ | **4,648** |
| Variable rent expense | | **1,792** |
| Occupancy costs | $ | **6,440** |

Future minimum lease payments on the Company's operating leases as of June 30, 2023 are as follows (in thousands):

| *Years ending June 30,* | | |
|---|---|---|
| 2024 | $ | **5,055** |
| 2025 | | **5,195** |
| 2026 | | **5,340** |
| 2027 | | **5,670** |
| 2028 | | **6,009** |
| Thereafter | | **57,552** |
| Undiscounted future cash flows | | **84,821** |
| Less imputed interest (at a rate of 3.07%) | | **(16,265)** |
| Total operating lease liabilities | $ | **68,556** |

Supplemental information related to the Company's operating leases is as follows:

| | | |
|---|---|---|
| Right-of-use assets obtained in exchange for new lease obligation – | | |
| - upon adoption (in thousands) | $ | **47,759** |
| Lease liabilities recognized upon adoption (in thousands) | $ | **69,841** |
| Right-of-use assets obtained in exchange for new lease obligation – | | |
| - new lease (in thousands) | $ | **1,431** |
| Cash paid for amounts included in measurement of lease liabilities | | |
| - Operating cashflows (in thousands) | $ | **4,775** |
| Weighted-average remaining lease term (in years) | | **13.2** |
| Weighted-average discount rate | | **3.07%** |

***Previous Lease Standard – Fiscal Year 2022***

For the year ended June 30, 2022, and prior, incentives received at the inception of the operating lease for the Company's current headquarters were 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. Short-term leases under previous lease standard were excluded under the new guidance.

The Company is obligated under various non-cancelable operating leases for office space, satellite transponders, storage, and technical facilities in approximate annual amounts, excluding renewal options available after June 30, 2022, as follows (in thousands):

| *Years ending June 30,* | | |
|---|---|---|
| 2023 | $ | **7,396** |
| 2024 | | **4,907** |
| 2025 | | **5,042** |
| 2026 | | **5,181** |
| 2027 | | **5,504** |
| 2028 and thereafter | | **62,523** |
| | $ | **90,553** |

Lease expense totaled $5.2 million for the year ended June 30, 2022, and is included as part of occupancy costs in the consolidated statements of functional expenses.

## 18. Commitments

*Technical Equipment Service Arrangements*

PBS is obligated under various non-cancelable contracts for satellite transponders in approximate annual amounts, excluding renewal options available after June 30, 2023, totaling $1,672,380.

*Programming*

PBS has current unpaid commitments of $114.0 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 and Margaret A. Cargill Philanthropies.

## 19. 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.

## 20. Subsequent Events

The Company has evaluated subsequent events through November 9, 2023, which is the date the consolidated financial statements were available to be issued. No subsequent events were identified that required adjustment to or disclosure in the consolidated financial statements.