Public Broadcasting Service and Subsidiaries

Consolidated Financial Statements and Independent Auditor's Report

Years Ended June 30, 2020 and 2019

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Tel: 301-354-2500
Fax: 301-354-2501
www.bdo.com

12505 Park Potomac Avenue
Suite 700
Potomac, MD 20854

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, 2020 and 2019, 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.

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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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, 2020 and 2019, 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.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, the Public Broadcasting Service and Subsidiaries changed its method for revenue recognition as a result of the adoption of the amendments to the Financial Accounting Standards Board Accounting Standards Codification resulting from Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, and ASU 2018-08, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made,* effective July 1, 2019. Our opinion is not modified with respect to these matters.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2020 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, LLP

November 16, 2020

Consolidated Financial Statements

Public Broadcasting Services and Subsidiaries

Consolidated Statements of Financial Position

June 30, *(in thousands)*	2020	2019
Assets		
Current assets		
Cash and cash equivalents	$ **100,463**	$ 75,451
Investments	**34,093**	32,769
Accounts receivable, net of allowance	**148,800**	187,771
Inventory, net	**2,327**	3,892
Prepaid expenses and other assets	**29,342**	23,415
Total current assets	**315,025**	323,298
Noncurrent assets		
Property and equipment, net	**42,475**	27,763
Unamortized broadcast rights	**130,460**	114,135
Investments, net of current portion	**111,513**	115,693
Other assets	**1,120**	1,077
Total assets	$ **600,593**	$ 581,966
Liabilities and net assets		
Current liabilities		
Accounts payable and accrued expenses	$ **181,815**	$ 162,641
Cable and license fees payable	**23,415**	28,881
Deferred revenue	**1,031**	2,998
Total current liabilities	**206,261**	194,520
Deferred lease obligations	**9,666**	1,864
Annuity liabilities	**15**	-
Total liabilities	**215,942**	196,384
Minority interest	**22,287**	21,003
Commitments and contingencies		
Net assets		
Without donor restrictions		
Board designated	**221,168**	232,404
Undesignated	**26,940**	26,668
Total without donor restrictions	**248,108**	259,072
With donor restrictions		
Purpose restrictions	**108,933**	100,729
Perpetual in nature	**5,323**	4,778
Total with donor restrictions	**114,256**	105,507
Total net assets	**362,364**	364,579
Total liabilities and net assets	$ **600,593**	$ 581,966

See accompanying notes to consolidated financial statements.

Public Broadcasting Service and Subsidiaries

Consolidated Statements of Activities

Years ended June 30, *(in thousands)*	2020 Without Donor Restrictions	2020 With Donor Restrictions	2020 Total	2019 Without Donor Restrictions	2019 With Donor Restrictions	2019 Total
Changes in net assets						
Revenues, gains, and other support						
Imputed value of donated broadcast rights	$ 194,088	$ -	$ 194,088	$ 148,914	$ -	$ 148,914
Member assessments	201,619	-	201,619	197,327	-	197,327
Grants and contributions	5,838	99,453	105,291	4,577	50,900	55,477
Distribution	186,467	-	186,467	170,792	-	170,792
Investment return, net	2,322	294	2,616	9,230	755	9,985
Other	9,834	10	9,844	7,283	5	7,288
Net assets released from restrictions	91,008	(91,008)	-	92,513	(92,513)	-
Total revenues, gains, and other support	691,176	8,749	699,925	630,636	(40,853)	589,783
Expenses						
Program services						
Content	408,578	-	408,578	361,384	-	361,384
Promotion	30,951	-	30,951	27,920	-	27,920
Other member services	7,384	-	7,384	7,162	-	7,162
Technology and operations	47,296	-	47,296	40,588	-	40,588
Educational grants	18,715	-	18,715	20,416	-	20,416
Ventures	135,970	-	135,970	118,573	-	118,573
Royalties and other	965	-	965	2,492	-	2,492
Total program services	649,859	-	649,859	578,535	-	578,535
Supporting services						
Management and general	34,945	-	34,945	36,280	-	36,280
Fundraising	3,230	-	3,230	2,857	-	2,857
Total supporting services	38,175	-	38,175	39,137	-	39,137
Total expenses	688,034	-	688,034	617,672	-	617,672
Change in net assets before minority interest and fair value gain on interest rate swap	3,142	8,749	11,891	12,964	(40,853)	(27,889)
Minority interest	(15,308)	-	(15,308)	(14,879)	-	(14,879)
Fair value gain on interest rate swap	-	-	-	44	-	44
Change in net assets	(12,166)	8,749	(3,417)	(1,871)	(40,853)	(42,724)
Net assets, beginning of year	259,072	105,507	364,579	260,943	146,360	407,303
Cumulative effect of accounting change	1,202	-	1,202	-	-	-
Net assets, end of year	$ 248,108	$ 114,256	$ 362,364	$ 259,072	$ 105,507	$ 364,579

See accompanying notes to consolidated financial statements.

Public Broadcasting Service and Subsidiaries

Statement of Functional Expenses

Years ended June 30, *(in thousands)*	Program Services: Content	Promotion	Other Member Services	Technology and Operations	Educational Grants	Ventures	Royalties and Other	Total Program Services	Support Services: Management and General	Fundraising	Total Support Services	2020 Total
Salaries and wages	$ 22,350	$ 4,311	$ 4,181	$ 11,671	$ 2,160	$ 12,552	$ 20	$ 57,245	$ 20,040	$ 2,048	$ 22,088	$ 79,333
Benefits	7,493	1,419	1,280	3,611	723	3,094	7	17,627	2,085	412	2,497	20,124
Professional services	15,807	3,764	609	15,017	5,772	1,758	623	43,350	6,341	282	6,623	49,973
Advertising and promotion	3,088	17,840	28	(2)	233	9,348	-	30,535	12	52	64	30,599
Office expense	215	74	77	395	5	3,048	-	3,814	624	66	690	4,504
Information technology	2,244	564	108	1,988	31	1,502	227	6,664	3,727	92	3,819	10,483
Royalties	176	-	-	-	-	78,428	(169)	78,435	-	-	-	78,435
Occupancy	1,428	282	206	1,366	176	280	5	3,743	962	125	1,087	4,830
Travel and conferences	827	852	351	93	124	445	-	2,692	359	134	493	3,185
Depreciation and amortization	3,475	716	528	1,403	-	2,379	9	8,510	2,467	-	2,467	10,977
Grant expense	782	950	-	3,523	8,049	-	-	13,304	-	5	5	13,309
Donated broadcast rights	194,088	-	-	-	-	-	-	194,088	-	-	-	194,088
Connectivity and communications	2,361	-	-	7,806	-	-	-	10,167	308	-	308	10,475
Program rights	151,804	16	-	-	-	9,035	140	160,995	-	-	-	160,995
Cost of goods sold	1,207	7	-	12	-	14,472	-	15,698	1	-	1	15,699
Others	1,233	156	16	413	1,442	(371)	103	2,992	(1,981)	14	(1,967)	1,025
	$ 408,578	$ 30,951	$ 7,384	$ 47,296	$ 18,715	$ 135,970	$ 965	$ 649,859	$ 34,945	$ 3,230	$ 38,175	$ 688,034

See accompanying notes to consolidated financial statements.

Public Broadcasting Service and Subsidiaries

Statement of Functional Expenses

Years ended June 30, *(in thousands)*	Program Services: Content	Promotion	Other Member Services	Technology and Operations	Educational Grants	Ventures	Royalties and Other	Total Program Services	Support Services: Management and General	Fundraising	Total Support Services	2019 Total
Salaries and wages	$ 20,281	$ 3,838	$ 3,731	$ 11,187	$ 1,710	$ 11,302	$ 19	$ 52,068	$ 20,135	$ 1,442	$ 21,577	$ 73,645
Benefits	6,385	1,233	1,175	3,308	546	2,847	6	15,500	1,653	291	1,944	17,444
Professional services	15,816	3,796	570	11,548	5,174	1,248	610	38,762	6,183	435	6,618	45,380
Advertising and promotion	1,502	16,132	60	3	492	6,429	-	24,618	9	9	18	24,636
Office expense	256	93	108	341	6	2,723	1	3,528	552	158	710	4,238
Information technology	2,192	600	109	2,821	30	1,438	205	7,395	4,169	84	4,253	11,648
Royalties	155	-	-	-	-	72,982	1,076	74,213	-	-	-	74,213
Occupancy	1,809	352	262	1,641	170	295	9	4,538	787	94	881	5,419
Travel and conferences	1,844	1,146	751	282	214	860	-	5,097	1,255	318	1,573	6,670
Depreciation and amortization	2,570	525	396	1,199	-	2,009	7	6,706	1,753	-	1,753	8,459
Grant expense	723	10	-	3,283	10,741	-	-	14,757	-	1	1	14,758
Donated broadcast rights	148,914	-	-	-	-	-	-	148,914	-	-	-	148,914
Connectivity and communications	1,514	-	-	4,530	-	-	-	6,044	2,760	-	2,760	8,804
Program rights	155,462	-	-	-	1	5,263	105	160,831	-	-	-	160,831
Cost of goods sold	111	7	-	19	-	11,177	-	11,314	151	-	151	11,465
Others	1,850	188	-	426	1,332	-	454	4,250	(3,127)	25	(3,102)	1,148
	$ 361,384	$ 27,920	$ 7,162	$ 40,588	$ 20,416	$ 118,573	$ 2,492	$ 578,535	$ 36,280	$ 2,857	$ 39,137	$ 617,672

See accompanying notes to consolidated financial statements.

Public Broadcasting Service and Subsidiaries

Consolidated Statements of Cash Flows

Years ended June 30,	**2020**	2019
(in thousands)		
Cash flows from operating activities:		
Change in net assets	**$ (2,215)**	$ (42,724)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	**10,977**	8,459
Amortization of broadcast rights	**145,992**	149,357
Bad debt expense	**899**	91
Minority interest	**15,308**	14,879
Realized gains on sale of investments	**(514)**	(11,746)
Unrealized losses on investments	**1,078**	5,765
Fair value gain on interest rate swap	**-**	(44)
Endowment contributions	**(545)**	(750)
Decrease (increase) in assets		
Accounts receivable	**38,072**	38,203
Inventory, net	**1,565**	428
Prepaid expenses and other assets	**(5,970)**	(1,124)
Unamortized broadcast rights	**(162,317)**	(156,514)
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	**19,174**	19,834
Cable and license fees payable	**(5,466)**	15,017
Deferred revenue and other liabilities	**(1,952)**	1,537
Deferred lease obligations	**(1,875)**	(1,694)
Net cash provided by operating activities	**52,211**	38,974
Cash flows from investing activities:		
Proceeds from sale of investments	**64,514**	83,826
Purchases of investments	**(62,222)**	(67,252)
Purchases of property and equipment	**(16,012)**	(2,800)
Net cash (used in) provided by investing activities	**(13,720)**	13,774
Cash flows from financing activities:		
Proceeds from interest rate swap agreement termination	**-**	364
Endowment contributions	**545**	750
Repayment of bonds payable	**-**	(15,795)
Proceeds from line-of-credit	**-**	11,550
Repayment of line-of-credit	**-**	(11,550)
Cash distributions to minority ownership	**(14,024)**	(16,478)
Net cash used in financing activities	**(13,479)**	(31,159)
Net increase in cash and cash equivalents	**25,012**	21,589
Cash and cash equivalents and restricted cash, beginning of year	**75,451**	53,862
Cash and cash equivalents and restricted cash, end of year	**$ 100,463**	$ 75,451
Supplemental cash flow information:		
Cash paid for interest	**$ -**	$ 178
Noncash investing activity:		
Leasehold improvements acquired through tenant improvement allowance paid by landlord	**$ (9,677)**	$ -

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, 2020 and 2019.

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 Adopted

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, which updates numerous requirements in U.S. GAAP, eliminates industry-specific guidance, and provides entities with a single model for recognizing revenue from contracts with customers. The core principle of the new standard is that an entity should recognize revenue to depict the transfer of promised goods or 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. ASU 2014-09 requires entities to identify contractual performance obligations and determine whether revenue should be recognized at a point in time or over time, based on when control of goods and services transfers to a customer. The update also requires additional disclosure to enable readers of the financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The Company adopted this update, along with all subsequent amendments (collectively, Topic 606) on July 1, 2019 under the modified retrospective method. As part of the adoption of the ASU, the Company elected the following transition practical expedients: (i) to reflect the aggregate of all contract modifications that occurred prior to the date of initial application when identifying satisfied and unsatisfied performance obligations, determining the transaction price, and allocating the transaction price; and (ii) to apply the standard only to contracts that are not completed at the initial date of application. Because contract modifications are minimal, there is not a significant impact as a result of electing these practical expedients. Adoption of this guidance had an immaterial impact on the Company's consolidated statements of activities.

The cumulative effect of applying the new standard on the consolidated statements of financial position as of July 1, 2019 was recognized as an adjustment to the opening balance of net assets without donor restrictions, increasing net assets without donor restrictions by $1,201,642. The adjustment relates to physical goods gross revenues, which are now required to be presented at the expected amount to be received. As such, a corresponding reduction in costs of goods sold and royalties was required for the expected return of physical goods.

The Company does not expect this guidance to have a material impact on product sales revenues or royalties on an ongoing basis. The Company's revenue recognition policies are discussed further in Note 1, Revenue Recognition.

During 2019, the Company also adopted ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The guidance provided in this ASU will assist in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions. The guidance also provides a more robust framework for determining whether a contribution is conditional or unconditional, and for distinguishing a donor-imposed condition from a donor-imposed restriction. The Company adopted this standard in fiscal year 2020 and applied the requirements on a modified prospective basis to agreements that either are not completed as of July 1, 2019 or entered into after July 1, 2019. Under ASU 2018-08, the Company's revenue from federal grants are considered conditional contributions because the customer does not receive commensurate value for the consideration received by the Company. The adoption of ASU 2018-08 did not have a significant impact on the Company's accounting for grants and contributions revenue.

As part of ASU 2018-08, the Company elected to adopt the standards for "contributions made" using the modified prospective basis. Conditional grants and contributions revenue is recognized by the Company when the condition is satisfied by the grantee. The adoption of this update did not materially impact the financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows* (Topic 230). The update standardizes how certain transactions should be classified in the statement of cash flows. The Company adopted this standard during the year ended June 30, 2020 with no impact to the consolidated statements of cash flows.

Accounting Pronouncements Issued but Not 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 statement 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 beginning after December 15, 2021, with early adoption permitted. The provisions of this ASU must be applied on a retrospective basis for all years presented although certain optional practical expedients are available. Management is currently evaluating the impact of this ASU on the consolidated financial statements.

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 will be permitted for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company is currently evaluating this ASU to determine the impact, if any, on its consolidated financial statements and disclosures.

In August 2018, the FASB issued ASU 2018-13, *Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. The update modifies certain disclosure requirements in Topic 820, *Fair Value Measurement*. The ASU is effective for fiscal years beginning after December 15, 2019. The Company is currently evaluating this ASU to determine the impact, if any, on its consolidated financial statements and disclosures.

In September 2020, the FASB issued ASU 2020-07, *Presentation and Disclosures by Not-For-Profit Entities for Contributed Nonfinancial Assets* (Topic 958). The standard requires certain information be disclosed related to contributed nonfinancial assets, including disaggregation by category on the statement of activities by type of contributed nonfinancial asset, qualitative information about whether the contributed nonfinancial asset was monetized or utilized during the reporting period, the nonprofit's policy about monetizing rather than utilizing contributed nonfinancial assets, a description of any donor restrictions associated with the contributed nonfinancial assets, and the valuation techniques and inputs used to arrive at fair value measurement. The amendments in the ASU should be applied on a retrospective basis and are effective for annual reporting periods beginning after June 15, 2021. Early adoption of the ASU is permitted. The Company is currently evaluating this ASU to determine the impact, if any, on its consolidated financial statements and disclosures.

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.

Investments

Investments in debt and equity securities are recorded at fair value based on quoted market prices. The 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. Interest and dividend income are accounted for on the 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, 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 $0.2 million and $0.3 million at June 30, 2020 and 2019, respectively. Uncollectible amounts are written off when all efforts to collect these receivables have been exhausted.

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 or un-saleable inventory is calculated by evaluating units on hand against prior years' sales and any plans to discontinue specific titles. A general reserve is calculated for any remaining inventory on hand that exceed the prior year two-year demand, net of the expected industry decline.

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

Revenue recognized in accordance with FASB 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 a cost estimated to be lower than fair market value because the production was directly funded in part by corporate and foundation underwriting. Imputed value of donate broadcast rights is recorded for the total amount of underwriting funds provided directly to producers for specific programs.
>
> 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.

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 approximately $721,000 in unrecognized conditional contributions as of June 30, 2020. The revenue related to these agreements is conditioned on incurring allowable expenditures under the terms of the agreements.

Grants and contributions includes 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. Based on the adoption of ASU 2018-08, federal grants are considered conditional contributions.

At June 30, 2020, the remaining award balance on federal grants was approximately $12,552,000. 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, 2020 and 2019, there were no refundable donor advances recorded related to federal grants since the Company typically requests payment only after obligations are incurred.

The Company recognizes all other revenue in accordance with FASB 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 includes the broadcast rights of the National Program Service, PBS PLUS and PBS Fundraising Programming, which consists of approximately 2,118 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 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.

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

		2020		2019
Licensing and royalties	$	**147,945**	$	141,833
Product sales		**36,993**		27,410
Other distribution		**1,529**		1,549
Total distribution revenue	$	**186,467**	$	170,792

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 primarily consists of content distributed via subscription video on demand (SVOD), transactional video on demand (TVOD), and international program sales. Licensing and royalty revenue amounts are determined based on contractually specified amounts or percentages. 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 consists of sales of DVDs, Blu-rays, and merchandise. Product prices are fixed at the time of purchase based on price listings or negotiated rates. Most customers pay at the time of purchase, but some customers are invoiced for purchases. Revenue from product sales is recognized at a point in time when ownership is transferred.

Other distribution – Other distribution revenue, which includes revenue from contracts that are outside the normal course of the Company's distribution activities, are received and recognized 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):

		2020		2019
Sponsorship and underwriting	$	**5,511**	$	2,321
Technical services		**734**		714
Satellite services		**600**		601
Educational services		**472**		470
Meetings and events		**-**		1,454
Miscellaneous		**2,527**		1,728
Total other revenue	$	**9,844**	$	7,288

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, primarily via the Company's YouTube site.

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.

Educational services – Educational services revenue consists of registration fees for teacher online professional development courses. Registration fees are fixed at the time of registration based on price listings for each course. Due to the short-term nature of the courses, revenue is recognized when the customer registers for the course.

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.

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 consideration, 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):

	2020	2019
Licensing and royalties	$ 655	$ 2,546
Sponsorship and underwriting	335	436
Other	41	16
Total deferred revenue	$ 1,031	$ 2,998

Substantially all amounts deferred as of June 30, 2019 were recognized during the year ended June 30, 2020.

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 $1.1 million in fiscal year 2020 and $1.8 million in fiscal year 2019.

Total advertising expense was $30.6 million in fiscal year 2020 and $24.6 million in fiscal year 2019.

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, 2020 and 2019 for unrelated business income as the Company had sufficient net operating loss carry forwards to offset the tax liabilities generated. As of June 30, 2020 and 2019, 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, 2020 and 2019, 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 2017 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 benefit, occupancy, office and depreciation 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**
Printing, postage, office supplies, depreciation, and occupancy costs	Full Time Headcount Equivalent
Benefit costs	Salary Expense by Project and Cost Center

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. 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):

		2020		2019
Cash and cash equivalents	$	**100,463**	$	75,451
Investments		**145,606**		148,462
Accounts receivable		**148,800**		187,771
Financial assets, as of June 30, 2020		**394,869**		411,684
Less those unavailable for general expenditures within one year, due to:				
Donor imposed restrictions:				
Restricted by donor with purpose restrictions		**(114,256)**		(105,507)
Board designated endowment fund		**(8,061)**		(7,935)
Total financial assets available to meet cash needs for general expenditures within one year	$	**272,552**	$	298,242

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 13, 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 $8.1 million and $7.9 million in board designated endowment funds, as of June 30, 2020 and 2019, 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 8, the Company has a credit facility with a committed line of credit with availability of up to $50 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 – Represents approximately 2,118 hours of broadcast content, provided by PBS to its 150-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.

4. 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 46% and 33% of the Company's accounts receivable as of June 30, 2020 and 2019, respectively, are due from three grantors and one grantor, respectively. Approximately 45% and 39% of the Company's accounts receivable for the years ended June 30, 2020 and 2019, respectively, were both due from three customers. Approximately 21% and 22% and of the Company's revenues during fiscal years 2020 and 2019, respectively, were generated from four and three customers, respectively. 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, 2020, and 2019, the Company had $37.9 million and $13.6 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):

		2020		2019
Short Term:				
Fixed income funds	$	**34,093**	$	32,769
Long Term:				
Money market funds		**505**		279
Fixed income funds		**29,080**		32,093
U.S. equity securities		**81,688**		81,016
Foreign equity securities		**240**		993
Investment in fund of funds		**-**		1,312
		111,513		115,693
Total investments	$	**145,606**	$	148,462

Net investment return for the years ended June 30, 2020 and 2019 consist of the following (in thousands):

		2020		2019
Interest and dividends, net	$	**4,208**	$	4,004
Realized losses/gains		**(514)**		11,746
Unrealized losses		**(1,078)**		(5,765)
Total investment return, net	$	**2,616**	$	9,985

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

7. 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):

		2020		2019
Land and building	$	**26,255**	$	19,460
Satellite transponder		**6,712**		6,712
Broadcasting equipment		**79,688**		75,217
Furniture and equipment		**4,867**		5,582
Computer and software		**51,980**		52,911
Mobile applications		**2,154**		2,154
Leasehold improvements		**25,770**		15,117
		197,426		177,153
Less accumulated depreciation and amortization		**(154,951)**		(149,390)
	$	**42,475**	$	27,763

Depreciation and amortization of property and equipment amounted to $11.0 million and $8.5 million for the years ended June 30, 2020 and 2019, respectively. The Organization disposed of fully depreciated property and equipment amounting to $5.4 million and $0 for the years ended June 30, 2020 and 2019, respectively.

8. 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, 2022. The line-of-credit incurred interest is the greater of the LIBOR Daily Floating Rate or the Index Floor of 1% + 1.26% and has an unused balance fee of 0.25% in both fiscal 2020 and 2019. Interest expense related to the line-of-credit was $0 in fiscal 2020 and $27,000 in fiscal 2019. As of June 30, 2020, and 2019 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, 2020.

9. 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, 2020 and 2019 consists of the following (in thousands):

	2020	2019
Beginning balance, minority interest	**$ 21,003**	$ 22,602
Share of PBSd fiscal year net income	**15,308**	14,879
Cash distributions to minority ownership	**(14,024)**	(16,478)
Ending balance, minority interest	**$ 22,287**	$ 21,003

10. Net Assets Without Donor Restrictions – Board Designated Net Assets

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

		2020		2019
Content	$	**140,809**	$	145,414
Roadmap to the future		**26,566**		19,878
Investment gains		**21,496**		25,014
Digital and content initiatives		**14,195**		21,999
PBSF endowment fund		**8,061**		7,935
Property		**6,205**		9,276
Strategic investment		**2,410**		2,388
PBSF board designated		**1,426**		500
	$	**221,168**	$	232,404

11. Net Assets with Donor Restrictions

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

		2020		2019
Subject to expenditure for specified purpose:				
Content	$	**11,729**	$	11,537
Technical products and services		**50,450**		49,160
Other grants		**46,754**		40,032
		108,933		100,729
Not subject to appropriation or expenditure:				
Original donor-restricted endowment amount and amounts required to be retained by donor		**5,323**		4,778
Total net assets with donor restrictions	$	**114,256**	$	105,507

12. Net Assets Released from Restrictions

Net assets were released from donor restrictions during the years ended June 30, 2020 and 2019 as follows (in thousands):

		2020		2019
Purpose restrictions accomplished:				
Other grants	$	**40,635**	$	43,990
Content		**26,037**		28,857
Technical products and services		**24,336**		19,666
Total restrictions released	$	**91,008**	$	92,513

13. Endowment

The PBS Endowment Fund consists of individual funds established for a variety of purposes. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed stipulations.

Description of Endowment Funds

At June 30, 2020 and 2019, the Company had endowment funds totaling $13.8 million and $13.3 million, respectively. Of this total, funds totaling $5.3 million and $4.8 million in fiscal 2020 and 2019, respectively, were restricted in perpetuity with donor-imposed stipulations on the use of the funds. In addition to the net assets with donor restrictions, the Company had 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, 2020 and 2019 (in thousands) are as follows:

June 30, 2020	**Without Donor Restrictions**	**With Donor Restrictions**	**Total**
Donor restricted endowment fund	**$ -**	**$ 5,745**	**$ 5,745**
Board designated endowment fund	**8,061**	**-**	**8,061**
Total endowment net assets	**$ 8,061**	**$ 5,745**	**$ 13,806**

June 30, 2019	**Without Donor Restrictions**	**With Donor Restrictions**	**Total**
Donor restricted endowment fund	$ -	$ 5,399	$ 5,399
Board designated endowment fund	7,935	-	7,935
Total endowment net assets	$ 7,935	$ 5,399	$ 13,334

Changes in endowment net assets for the years ended June 30, 2020 and 2019 (in thousands):

June 30, 2020	**Without Donor Restrictions**	**With Donor Restrictions**	**Total**
Beginning of year	**$ 7,935**	**$ 5,399**	**$ 13,334**
Contributions and additions	**63**	**545**	**608**
Investment return, net	**63**	**1**	**64**
Distributions	**-**	**(200)**	**(200)**
End of year	**$ 8,061**	**$ 5,745**	**$ 13,806**

June 30, 2019	**Without Donor Restrictions**	**With Donor Restrictions**	**Total**
Beginning of year	$ 7,185	$ 4,717	$ 11,902
Contributions and additions	342	750	1,092
Investment return, net	408	264	672
Distributions	-	(332)	(332)
End of year	$ 7,935	$ 5,399	$ 13,334

Funds with Deficiencies

The Company is subject to 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 for the years ended June 30, 2020 and 2019.

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.

14. Retirement Plans

Retirement benefits are provided for all eligible employees under defined contribution retirement plans (the Plans). Expenses related to the Plans were $5.3 million and $5.0 million in fiscal 2020 and 2019, 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 after June 30, 2020, as follows (in thousands):

Years ending June 30,		
2021	$	**3,933**
2022		**2,348**
2023		**4,776**
2024		**4,907**
2025 and thereafter		**78,249**
	$	**94,213**

PBS has an operating lease for its headquarters facilities in Arlington, Virginia. The initial lease term is for 15 years starting March 1, 2006. 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. This lease was amended on December 17, 2018 to provide for a reduction in rent and an early termination of the lease. This lease will terminate on the day immediately preceding the occupancy date of the lease for PBS's new headquarters facilities in Arlington, VA, which occurred on September 26, 2020. The new operating lease is effective through August 31, 2036.

Incentives received at the inception of the operating lease for the Company's current headquarters 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.

Rent expense was $3.5 million in fiscal 2020 and $4.4 million in fiscal 2019.

Programming

PBS has current unpaid commitments of $58.1 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.

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.

17. Risks and Uncertainties

The federal funding that supports public broadcasting may decline in the future as part of the on-going deficit reduction 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.

On January 30, 2020, the World Health Organization (WHO) announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the COVID-19 outbreak), and the risks to the international community as the virus spreads globally beyond its point of origin. On March 11, 2020, the World Health Organization declared the novel coronavirus a global pandemic.

The extent of the impact of the COVID-19 outbreak on the operational and financial performance of the Company will depend on the duration and continued spread of the outbreak. In addition, the Company depends on funds from contributions and grants which may decrease or not be available. COVID-19 presents potential material uncertainty and risk with respect to the Company, its performance, and its financial results in fiscal year 2021.

On March 27, 2020, President Trump signed into law the “Coronavirus Aid, Relief, and Economic Security (CARES) Act.” Management has examined the provisions of the CARES Act and did not participate in any of the programs or apply for economic assistance.

Management continues to monitor the impact the COVID-19 pandemic could potentially have on its operations and financial position in fiscal year 2021.

18. 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 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 measured at fair value on a recurring basis as of June 30, 2020 (in thousands):

Description	Level 1	Level 2	Level 3	NAV	Total
Fixed income funds	**$ 63,173**	$ -	$ -	$ -	**$ 63,173**
U.S. equity securities	**81,688**	-	-	-	**81,688**
Foreign equity securities	**240**	-	-	-	**240**
Money market funds	**505**	-	-	-	**505**
Fund of funds	**-**	-	-	-	**-**
	$ 145,606	$ -	$ -	$ -	**$ 145,606**

The following table sets forth the Company's financial assets measured at fair value on a recurring basis as of June 30, 2019 (in thousands):

Description	Level 1	Level 2	Level 3	NAV	Total
Fixed income funds	$ 64,862	$ -	$ -	$ -	$ 64,862
U.S. equity securities	81,016	-	-	-	81,016
Foreign equity securities	993	-	-	-	993
Money market funds	279	-	-	-	279
Fund of funds	-	-	-	1,312	1,312
	$ 147,150	$ -	$ -	$ 1,312	$ 148,462

There were no financial liabilities measured at fair value on a recurring basis as of June 30, 2020 and 2019.

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, 2020, and 2019, the fair value of the Fund was $0 and $1.3 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. The Fund's final liquidation was for $1.3 million and PBS received the proceeds on July 2, 2019. The Company has no unfunded commitments associated with this investment.

19. Subsequent Events

The Company has evaluated subsequent events through November 16, 2020, 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.