Public Broadcasting Service and Subsidiaries

Consolidated Financial Statements and Independent Auditor's Report

Years Ended June 30, 2016 and 2015

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Contents

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Independent Auditor's Report

To the Board of Directors
Public Broadcasting Service
Arlington, Virginia

We have audited the accompanying consolidated financial statements of the **Public Broadcasting Service and Subsidiaries**, which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the **Public Broadcasting Service and Subsidiaries** as of June 30, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BDO USA, LLP

November 2, 2016

Consolidated Financial Statements

Public Broadcasting Services and Subsidiaries

Consolidated Statements of Financial Position

June 30,	**2016**	2015
(in thousands)		
Assets		
Current assets		
Cash and cash equivalents	**$ 27,921**	$ 46,271
Investments	**40,633**	60,283
Accounts receivable, net	**124,097**	129,947
Inventory, net	**7,402**	7,810
Prepaid satellite leases	**884**	3,580
Prepaid expenses and other assets	**20,056**	13,131
Total current assets	**220,993**	261,022
Property and equipment		
Land and building	**19,013**	19,013
Satellite transponder	**6,712**	6,712
Broadcasting equipment	**71,976**	71,943
Furniture and equipment	**5,246**	4,937
Computer and software	**40,951**	37,357
Mobile applications	**1,743**	1,347
Leasehold improvements	**14,915**	14,915
	160,556	156,224
Less accumulated depreciation and amortization	**(126,308)**	(119,051)
Property and equipment, net	**34,248**	37,173
Other noncurrent assets		
Unamortized broadcast rights	**108,296**	120,413
Investments, net of current portion	**118,158**	122,239
Accounts receivable, net of current portion	**2,796**	5,411
Prepaid satellite leases, net of current portion	**-**	884
Other assets	**2,048**	2,944
Total other noncurrent assets	**231,298**	251,891
Total assets	**$ 486,539**	$ 550,086

June 30,	**2016**	2015
(in thousands)		
Liabilities and net assets		
Current liabilities		
Accounts payable and accrued expenses	**$ 134,652**	$ 135,673
Cable and license fees payable	**21,328**	29,140
Line of credit	**3,900**	-
Bonds payable	**570**	550
Deferred revenue		
Programming	**29**	77
Other	**869**	1,455
Total current liabilities	**161,348**	166,895
Bonds payable, net of current portion	**16,390**	16,960
Deferred lease obligations	**5,902**	6,928
Interest rate swap	**644**	64
Total liabilities	**184,284**	190,847
Minority interest	**15,130**	15,419
Commitments and contingencies		
Net assets		
Unrestricted		
Designated	**197,059**	223,748
Undesignated	**32,513**	32,929
Temporarily restricted	**53,525**	83,165
Permanently restricted	**4,028**	3,978
Total net assets	**287,125**	343,820
Total liabilities and net assets	**$ 486,539**	$ 550,086

See accompanying notes to consolidated financial statements.

Public Broadcasting Service and Subsidiaries

Consolidated Statements of Activities

Years ended June 30, *(in thousands)*	2016					2015				
	Unrestricted		Temporarily	Permanently		Unrestricted		Temporarily	Permanently	
	Designated	Undesignated	Restricted	Restricted	Total	Designated	Undesignated	Restricted	Restricted	Total
Changes in net assets										
Revenues, gains, and other support										
Imputed value of donated broadcast rights	**$ 151,388**	**$ -**	**$ -**	**$ -**	**$ 151,388**	$ 165,758	$ -	$ -	$ -	$ 165,758
Member assessments	**177,236**	**15,754**	**-**	**-**	**192,990**	158,802	29,545	-	-	188,347
Grants and contributions	**2,042**	**943**	**48,848**	**50**	**51,883**	1,476	699	55,731	3,978	61,884
Video	**-**	**65,398**	**-**	**-**	**65,398**	-	71,021	-	-	71,021
Royalties	**762**	**109,248**	**-**	**-**	**110,010**	1,205	79,686	-	-	80,891
Satellite services	**-**	**575**	**550**	**-**	**1,125**	-	575	600	-	1,175
Investment returns, net	**944**	**77**	**87**	**-**	**1,108**	812	45	11	-	868
Other	**11,613**	**12,997**	**(123)**	**-**	**24,487**	4,320	15,568	287	-	20,175
Net assets released from restrictions	**32,272**	**46,730**	**(79,002)**	**-**	**-**	38,395	57,296	(95,691)	-	-
Total revenues, gains, and other support	**376,257**	**251,722**	**(29,640)**	**50**	**598,389**	370,768	254,435	(39,062)	3,978	590,119
Expenses										
Program services										
Programming	**355,122**	**25,206**	**-**	**-**	**380,328**	350,565	32,401	-	-	382,966
Promotion	**33,608**	**1,901**	**-**	**-**	**35,509**	32,637	4,758	-	-	37,395
Member services	**682**	**9,812**	**-**	**-**	**10,494**	773	10,089	-	-	10,862
Technology and operations	**3,187**	**32,822**	**-**	**-**	**36,009**	2,869	34,827	-	-	37,696
Educational grants	**-**	**6,496**	**-**	**-**	**6,496**	-	9,354	-	-	9,354
Ventures	**213**	**131,039**	**-**	**-**	**131,252**	215	105,296	-	-	105,511
Royalties and other	**6**	**2,416**	**-**	**-**	**2,422**	9	1,993	-	-	2,002
Total program services	**392,818**	**209,692**	**-**	**-**	**602,510**	387,068	198,718	-	-	585,786
Supporting services										
Management and general	**2,312**	**33,063**	**-**	**-**	**35,375**	2,295	32,200	-	-	34,495
Fundraising	**-**	**1,404**	**-**	**-**	**1,404**	36	1,886	-	-	1,922
Total supporting services	**2,312**	**34,467**	**-**	**-**	**36,779**	2,331	34,086	-	-	36,417
Total expenses	**395,130**	**244,159**	**-**	**-**	**639,289**	389,399	232,804	-	-	622,203
Change in net assets before minority interest, unrealized (loss) gain on interest rate swap and net asset transfers	**(18,873)**	**7,563**	**(29,640)**	**50**	**(40,900)**	(18,631)	21,631	(39,062)	3,978	(32,084)
Minority interest	**-**	**(15,215)**	**-**	**-**	**(15,215)**	-	(14,811)	-	-	(14,811)
Unrealized (loss) gain on interest rate swap	**-**	**(580)**	**-**	**-**	**(580)**	-	343	-	-	343
Net asset transfers	**(7,816)**	**7,816**	**-**	**-**	**-**	6,305	(6,305)	-	-	-
Change in net assets	**(26,689)**	**(416)**	**(29,640)**	**50**	**(56,695)**	(12,326)	858	(39,062)	3,978	(46,552)
Net assets, beginning of year	**223,748**	**32,929**	**83,165**	**3,978**	**343,820**	236,074	32,071	122,227	-	390,372
Net assets, end of year	**$ 197,059**	**$ 32,513**	**$ 53,525**	**$ 4,028**	**$ 287,125**	$ 223,748	$ 32,929	$ 83,165	$ 3,978	$ 343,820

See accompanying notes to consolidated financial statements.

Public Broadcasting Service and Subsidiaries

Consolidated Statements of Cash Flows

Years ended June 30,	**2016**	2015
(in thousands)		
Cash flows from operating activities:		
Change in net assets	**$ (56,695)**	$ (46,552)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization of property and equipment	**8,743**	8,295
Amortization of broadcast rights	**167,948**	157,185
Loss on disposal of property and equipment	**101**	6
Bad debt expense	**12,918**	807
Minority interest	**15,215**	14,811
Realized gains on sale of investments	**(4,896)**	(1,516)
Unrealized losses on investments	**6,990**	4,678
Unrealized loss (gain) on interest rate swap	**580**	(343)
Permanently restricted contributions received	**(50)**	(3,978)
Decrease (increase) in assets		
Accounts receivable	**(4,453)**	32,110
Inventory, net	**408**	(2,628)
Prepaid satellite leases	**3,580**	3,792
Prepaid expenses and other assets	**(6,029)**	(5,629)
Unamortized broadcast rights	**(155,831)**	(194,080)
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	**(1,021)**	25,715
Cable and license fees payable	**(7,812)**	10,752
Deferred revenue and other liabilities	**(634)**	(190)
Deferred lease obligations	**(1,026)**	(928)
Net cash (used in) provided by operating activities	**(21,964)**	2,307
Cash flows from investing activities:		
Proceeds from sale of investments	**331,711**	176,272
Purchases of investments	**(310,074)**	(152,778)
Purchases of property and equipment	**(5,919)**	(9,494)
Net cash provided by investing activities	**15,718**	14,000
Cash flows from financing activities:		
Repayment of term loan	**-**	(5,119)
Repayment of bonds payable	**(550)**	(525)
Proceeds from line of credit	**51,350**	17,150
Repayment of line of credit	**(47,450)**	(17,150)
Cash distribution to minority owenership	**(15,504)**	(12,180)
Permanently restricted contributions received	**50**	3,978
Net cash used in financing activities	**(12,104)**	(13,846)
Net (decrease) increase in cash and cash equivalents	**(18,350)**	2,461
Cash and cash equivalents, beginning of year	**46,271**	43,810
Cash and cash equivalents, end of year	**$ 27,921**	$ 46,271
Supplemental cash flow information:		
Cash paid for interest	**$ 452**	$ 625
Cash paid for income taxes	**$ -**	$ 605

See accompanying notes to the consolidated financial statements.

1. Summary of Significant Accounting Policies

General

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

PBS Enterprises, Inc. (PBSE), a wholly-owned for-profit subsidiary of PBS, was incorporated in December 1984. PBSE was organized to pursue revenue-producing projects and services as part of an ongoing effort to increase public television's financial base. National Datacast, Inc. (NDI) was incorporated in May 1988 as a majority-owned subsidiary of PBSE. Effective March 9, 2015, NDI ceased operations and all assets and liabilities of the company were transferred to its parent company PBSE. Effective that same date, PBSE was converted to a limited liability company, PBS Enterprises, LLC (PBSE LLC). PBSE LLC continues to maintain the network and license agreements with stations that were originally held by NDI.

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

In 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, 2016 and 2015.

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

Principles of Consolidation

The consolidated financial statements include the accounts of PBS, PBSE LLC, 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).

Recent Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) and Health Care Entities (Topic 954) – Presentation of Financial Statements of Not-for-Profit Entities*. The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled “net assets without donor restrictions” and “net assets with donor restrictions”, (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. The ASU is effective for the Company’s financial statements for fiscal years beginning after December 15, 2017. Early adoption is permitted. The provisions of the ASU must be applied on a retrospective basis for all years presented although certain optional practical expedients are available for periods prior to adoption. Management is currently evaluating the impact of their pending adoption of the new standard on the consolidated financial statements.

Basis of Presentation

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

> *Unrestricted net assets* – Net assets that are not subject to donor-imposed stipulations. Included in unrestricted net assets are amounts that have been designated by the Board of Directors for a specific purpose.
>
> *Temporarily restricted net assets* – Net assets subject to donor-imposed stipulations that will be met either by actions of the Company and/or the passage of time.
>
> *Permanently restricted net assets* – Net assets subject to donor-imposed stipulations which require those assets to be maintained permanently by the Company.

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

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

Endowment

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

The Company classifies amounts designated by the donor to be preserved in perpetuity as permanently restricted. Donor funds that are not designated by the donor to be preserved in perpetuity are classified as temporarily restricted or unrestricted. Earnings from all donor-restricted funds are classified as temporarily restricted until such time as they are appropriated for use or classified as unrestricted. Both the principal and earnings of Board designated funds are classified as unrestricted. Investment income and investment gains and losses are attributed to individual endowment funds in proportion to their pro rata share of the investment balance.

Investments

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

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

Accounts Receivable

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

The Company regularly evaluates the ability of its members and other customers to pay amounts due and makes appropriate provisions for doubtful accounts. The allowance for doubtful accounts is approximately $19.1 million and $6.6 million at June 30, 2016 and 2015, respectively.

Inventory

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

Property and Equipment

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

Building	45 years
Satellite transponder	12 years
Broadcasting equipment	4-5 years
Computer and software	3-5 years
Furniture and equipment	3-8 years
Mobile applications	1 year
Leasehold improvements	Term of lease, plus all reasonably assured renewal periods

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

Impairment of Long-Lived Assets

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

Revenue Recognition

Member Assessments – PBS member stations pay an annual member assessment for access to programming and non-programming services. Programming services includes the broadcast rights of the National Program Service, PBS PLUS and PBS Fundraising Programming, which consists of approximately 3,094 hours of programming and related promotion and support. Non-programming related services include digital products, education, and development. The revenue is recognized in the fiscal year to which the assessment applies.

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

Conditional contributions are recorded as revenue when all conditions have been substantially met. As of June 30, 2016 and 2015, the Company had no conditional grants.

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

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

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

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

Other Revenue – Included within other revenue in the consolidated statements of activities is revenue from domestic and international licensing deals, as well as underwriting and sponsorship revenues. Revenue is recognized when all deliverables have been delivered to the customer, collection is reasonably assured, and the licensor's right to exploit the program has begun.

Advertising Expenses

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

Direct-response advertising consists primarily of printing, mailing and postage related to PBSd's product catalogs. Total direct-response advertising expense was $2.1 million in fiscal 2016 and $2.2 million in fiscal 2015.

Income Taxes

PBS and PBS Foundation, are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except for taxes on unrelated business income. PBS Enterprises, Inc. (through March 9, 2015) and PBSd are subject to tax. PBS Enterprises, LLC (since March 9, 2015) and PBS Digital, LLC are treated as a disregarded entities for tax purposes, and included on the tax returns of PBS.

PBS made no estimated federal tax payments for the year ended June 30, 2016. PBS made estimated federal tax payments totaling $320,000 for unrelated business income for the year ended June 30, 2015. As of June 30, 2016 and 2015, PBS has not recorded a deferred tax asset for net operating loss carry forwards, since their realization is uncertain.

Under Accounting Standards Codification (ASC) 740-10, *Income Taxes*, an organization must recognize the tax benefit associated with tax positions taken for tax return purposes when it is more-likely-than-not that the position will be sustained. The Company does not believe there are any unrecognized tax benefits that should be recorded. For the years ended June 30, 2016 and 2015, there were no interest or penalties included in the consolidated statements of activities. The Company is still open to examination by taxing authorities from fiscal year 2013 forward.

Allocation of Costs

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

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates and assumptions may also affect the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Description of Functional Activities

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

Programming – Represents approximately 3,094 hours of broadcast content, provided by PBS to its 159 member public television licensees, to inform, inspire, engage, and educate. This expense category includes costs associated with administering programming, including content oversight, program scheduling and packaging. PBS capitalizes the cost of purchased broadcast rights (obtained principally for the National Program Service), charging such rights to expense when the program is made available to member stations for initial broadcast. Unamortized broadcast rights are shown as noncurrent assets in the consolidated statements of financial position because current portions are not readily determinable.

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

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

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 by the PBS Foundation to raise funds and perform activities in support of PBS.

3. Concentrations of Credit Risk

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

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

Approximately 25% and 42% of the Company's accounts receivable as of June 30, 2016 and 2015, respectively, are due from one grantor. The Company believes the credit risk is mitigated based on a long history with the grantor, and management's ongoing considerations around collectability of its trade receivables. The credit risk with respect to the remaining accounts receivable is limited because the Company deals with a large number of customers over a wide geographic area.

4. Cash and Cash Equivalents

As of June 30, 2016 and 2015, the Company had $22.7 million and $28.1 million, respectively, in temporarily restricted funds invested in a money market account. These amounts are included in cash and cash equivalents in the consolidated statements of financial position.

5. Investments

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

	2016	2015
Short Term:		
Fixed income funds	**$ 40,600**	$ 60,283
Money market funds	**33**	-
	40,633	60,283
Long Term:		
Money market funds	**368**	228
Fixed income funds	**17,331**	15,996
U.S. equity securities	**96,647**	102,759
Foreign equity securities	**1,273**	-
Investment in fund of funds	**2,539**	3,256
	118,158	122,239
	$ 158,791	$ 182,522

Investment returns for the years ended June 30, 2016 and 2015 consist of the following (in thousands):

		2016		2015
Interest and dividends, net	**$**	**3,202**	$	4,030
Realized gains		**4,896**		1,516
Unrealized losses		**(6,990)**		(4,678)
	$	**1,108**	$	868

Interest and dividends are reported net of related expenses, such as custodial, commission, and investment advisory fees. Such expenses amounted to $272,000 and $270,000 for the years ended June 30, 2016 and 2015, respectively.

6. Prepaid Satellite Leases

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

As of June 30, 2016 and 2015, the balance of payments made to New Skies Satellites B.V. for future periods was $0.9 million and $4.5 million, respectively. These amounts are included in prepaid satellite leases in the accompanying consolidated statements of financial position.

7. Debt

Line of Credit

On April 28, 2016, PBS amended the credit facility it originally entered into on May 31, 2013. The facility is a committed line-of-credit that had an initial availability of up to $20.0 million. This amendment increased the borrowing limit to be up to $50.0 million. In addition, the expiration date of the facility was extended to May 31, 2018. As of June 30, 2016, the line-of-credit incurs interest at LIBOR + 0.50%, and PBS pays a 0.12% fee on the unused balance of the commitment. As of June 30, 2015, the line-of-credit incurs interest at LIBOR + 0.45%, and PBS pays a 0.10% fee on the unused balance of the commitment.

Interest expense related to the line-of-credit amounted to $28,000 in fiscal 2016 and $3,000 in fiscal 2015. As of June 30, 2016, $3.9 million was outstanding and as of June 30, 2015, there was no amount outstanding on the line-of-credit facility.

Bonds Payable

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

On August 1, 2012, PBS refinanced these bonds through a direct purchase transaction with a bank. Under this agreement, the bank purchased all of the re-issued Series 2005 bonds with an aggregate outstanding principal balance of $18,545,000. The agreement has a term of approximately nine and a half years. The bonds will be held by the bank until the termination of this agreement on February 1, 2022. The bonds will continue to be redeemed annually based on the initial repayment schedule established at the issuance of the Series 2005 bonds and will retain the original July 1, 2035 final maturity date. Interest on the bonds accrues at a rate of 77% of 30-day LIBOR + 85 basis points (or 1.235% at June 30, 2016 and 0.99% at June 30, 2015). As of June 30, 2016 and 2015, the bond principal outstanding was $17.0 million and $17.5 million, respectively.

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

Years ending June 30,		
2017	$	570
2018		595
2019		615
2020		640
2021		665
Thereafter		13,875
	$	16,960

PBS is subject to certain financial covenants under the line of credit and bond refinancing agreements. All covenants have been met by PBS as of June 30, 2016.

Interest expense related to the bonds payable for the years ended June 30, 2016 and 2015 was $191,000 and $177,000, respectively.

8. Minority Interest

Minority interest represents the ownership interests of the minority owner in PBSd of 40%. The amounts shown in the consolidated statements of activities represent the minority owner's share of the net income of PBSd for the fiscal years then ended. The amounts shown in the consolidated statements of financial position and consolidated statements of cash flows are net of cash distributions by PBSd to the minority owner.

The minority interest balance for the years ended June 30, 2016 and 2015 consists of the following (in thousands):

		2016		2015
Beginning balance, minority interest	**$**	**15,419**	$	12,788
Share of PBSd fiscal year net income		**15,215**		14,811
Cash distributions to minority ownership		**(15,504)**		(12,180)
Ending balance, minority interest	**$**	**15,130**	$	15,419

9. Designated Net Assets

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

		2016		2015
Content	**$**	**140,755**	$	158,477
Digital and content initiatives		**28,167**		30,961
Roadmap to the Future		**10,138**		11,130
Investment gains		**8,737**		14,272
Property		**3,651**		5,156
Other		**3,391**		1,511
Strategic investment		**2,220**		2,241
	$	**197,059**	$	223,748

10. Temporarily Restricted Net Assets

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

		2016		2015
Programming	**$**	**14,455**	$	41,354
Grants		**29,730**		27,208
Interconnection and technical services		**9,340**		14,603
	$	**53,525**	$	83,165

11. Net Assets Released from Restrictions

Net assets were released from donor restrictions during the years ended June 30, 2016 and 2015 as follows (in thousands):

		2016		2015
Grants	**$**	**31,857**	$	39,975
Programming		**32,272**		38,395
Interconnection and technical services		**14,873**		17,321
	$	**79,002**	$	95,691

12. Permanently Restricted Net Assets

Permanently restricted net assets consist of an endowment fund from The Iris and Joseph Pollock Estate amounting to $4.0 million at June 30, 2016 and 2015.

The Iris and Joseph Pollock Fund

During fiscal year 2015, the Company received $3,978,088 to establish The Iris and Joseph Pollock Fund. An additional $49,600 was received during fiscal year 2016. The income from this endowment fund will be used to fund the broadcast and dissemination of classical music programming.

13. Endowment

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

Description of Endowment Funds

At June 30, 2016 and 2015, the Company had endowment funds totaling $7.5 million and $5.0 million, respectively. Of this total, funds totaling $4.0 million in both 2016 and 2015, was permanently restricted with donor imposed stipulations on the use of the funds. In addition to the permanently restricted fund, the Company had Board designated endowment funds.

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

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

The distribution of endowment net assets between donor restricted and Board designated as of June 30, 2016 and 2015 (in thousands) is as follows:

June 30, 2016	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor restricted endowment fund:				
The Iris and Joseph Pollock Fund	**$ -**	**$ 65**	**$ 4,028**	**$ 4,093**
Board designated fund:				
PBS Endowment Fund	**3,392**	**-**	**-**	**3,392**
Total endowment net assets	**$ 3,392**	**$ 65**	**$ 4,028**	**$ 7,485**

June 30, 2015	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor restricted endowment fund:				
The Iris and Joseph Pollock Fund	$ -	$ -	$ 3,978	$ 3,978
Board designated fund:				
PBS Endowment Fund	1,013	-	-	1,013
Total endowment net assets	$ 1,013	$ -	$ 3,978	$ 4,991

Changes in endowment net assets for the years ended June 30, 2016 and 2015 (in thousands):

June 30, 2016	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Beginning of year	$ 1,013	$ -	$ 3,978	$ 4,991
Contributions and additions	2,335	-	50	2,385
Investment gains, net	44	65	-	109
Distributions	-	-	-	-
End of year	$ 3,392	$ 65	$ 4,028	$ 7,485

June 30, 2015	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Beginning of year	$ -	$ -	$ -	$ -
Contributions and additions	1,025	-	3,978	5,003
Investment losses, net	(12)	-	-	(12)
Distributions	-	-	-	-
End of year	$ 1,013	$ -	$ 3,978	$ 4,991

Funds with Deficiencies

The fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Company to retain as a fund of perpetual duration. The Iris and Joseph Pollock Fund had a deficiency of $60 thousand for the year ended June 30, 2016. There were no fund deficiencies for the year ended June 30, 2015. Fund deficiencies for permanently restricted endowment funds are shown within unrestricted undesignated investment returns, net in the accompanying consolidated statements of activities.

Endowment Investing Policies

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

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

Endowment Spending Policy

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

14. Imputed Value of Donated Broadcast Rights

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

Imputed value of donated broadcast rights is recognized as revenue in the year the initial program is made available to member stations for initial broadcast. An equal amount of expense is recognized as programming expense in the same year the corresponding revenue is recorded. The imputed value of donated broadcast rights was $151.4 million and $165.8 million for the years ended June 30, 2016 and 2015, respectively.

15. Retirement Plans

Retirement benefits are provided for all eligible employees under a defined contribution retirement plan (the Plan). Employees are eligible to participate in the Plan after one year of service. All Plan participants are fully vested in the contributions made by the Company. Expenses related to the Plan were $3.5 million and $3.2 million in 2016 and 2015, respectively.

16. Commitments

Operating Leases

The Company is obligated under various non-cancelable operating leases for office space, satellite transponders, automobiles, storage, and technical facilities in approximate annual amounts, excluding renewal options available subsequent to June 30, 2016, as follows (in thousands):

Years ending June 30,	
2017	$ 7,733
2018	8,712
2019	7,214
2020	6,714
2021	5,390
Thereafter	686
	$ 36,449

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

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

Rent expense was $4.6 million and $4.5 million in 2016 and 2015, respectively.

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

Programming

PBS has current unpaid commitments of $60.3 million for programs that have not yet been made available for broadcast. These commitments will be funded primarily from the member assessments and from grants from the Corporation for Public Broadcasting.

17. Contingencies

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

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

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

18. Fair Value of Financial Instruments

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

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

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

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

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

The following table sets forth the Company's financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2016 (in thousands):

Description	Level 1	Level 2	Level 3	NAV	Total
Fixed income funds	**$ 57,931**	**$ -**	**$ -**	**$ -**	**$ 57,931**
U.S. equity securities	**96,647**	**-**	**-**	**-**	**96,647**
Foreign equity securities	**1,273**	**-**	**-**	**-**	**1,273**
Money market funds	**401**	**-**	**-**	**-**	**401**
Fund of funds	**-**	**-**	**-**	**2,539**	**2,539**
	156,252	**-**	**-**	**2,539**	**158,791**
Interest rate swap	**-**	**(644)**	**-**	**-**	**(644)**
	$ 156,252	**$ (644)**	**$ -**	**$ 2,539**	**$ 158,147**

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

Description	Level 1	Level 2	Level 3	NAV	Total
Fixed income funds	$ 76,225	$ -	$ -	$ -	$ 76,279
U.S. equity securities	102,813	-	-	-	102,759
Money market funds	228	-	-	-	228
Fund of funds	-	-	-	3,256	3,256
	179,266	-	-	3,256	182,522
Interest rate swap	-	(64)	-	-	(64)
	$ 179,266	$ (64)	$ -	$ 3,256	$ 182,458

Investments

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

The fund of funds (Fund) is valued based on an estimated net assets value per share. As of June 30, 2016, the fair value of the Fund was $2.5 million. During 2008, the Fund announced that it would begin liquidating the fund by prudently redeeming assets from the underlying managers pursuant to the underlying managers' redemption schedules. A significant portion of the Fund is expected to be liquidated by 2018. The Company has no unfunded commitments associated with this investment.

Interest Rate Swap

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

19. Subsequent Events

The Company has evaluated subsequent events through November 2, 2016, 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.