Public Broadcasting Service and Subsidiaries

Consolidated Financial Statements and Independent Auditor's Report

Years Ended June 30, 2013 and 2012

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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, 2013 and 2012, and the related consolidated statements of activities, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the **Public Broadcasting Service and Subsidiaries** as of June 30, 2013 and 2012, 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

Bethesda, MD
November 14, 2013

Consolidated
Financial Statements

Public Broadcasting Service and Subsidiaries

Consolidated Statements of Financial Position

June 30		**2013**		2012
(in thousands)				
Assets				
Current assets				
Cash	**$**	**30,658**	$	32,389
Restricted cash		**-**		906
Investments, current portion		**77,347**		82,953
Accounts receivable, current portion, net		**108,688**		76,551
Inventory, net		**4,880**		2,885
Prepaid satellite leases, current portion		**3,792**		4,408
Prepaid expenses and other assets		**7,145**		5,243
Total current assets		**232,510**		205,335
Property and equipment				
Land and building		**19,013**		13,044
Satellite transponder		**6,712**		6,712
Broadcasting equipment		**66,193**		64,665
Furniture and equipment		**4,723**		5,153
Computer and software		**29,928**		28,415
Leasehold improvements		**14,893**		15,977
		141,462		133,966
Less accumulated depreciation and amortization		**(102,884)**		(95,225)
Property and equipment, net		**38,578**		38,741
Other noncurrent assets				
Unamortized broadcast rights		**73,419**		67,251
Investments, net of current portion		**99,479**		90,083
Accounts receivable, net of current portion		**1,789**		667
Prepaid satellite leases, net of current portion		**8,256**		8,217
Other assets		**4,594**		3,032
Total other noncurrent assets		**187,537**		169,250
Total assets	**$**	**458,625**	**$**	**413,326**

June 30	**2013**	2012
(in thousands)		
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	**$ 97,711**	$ 73,983
Cable and license fees payable	**28,808**	29,423
Term loan - current portion	**1,280**	-
Bonds payable - current portion	**510**	485
Line of credit	**-**	8,000
Deferred revenue		
Programming	**99**	826
Other	**5,061**	2,740
Total current liabilities	**133,469**	115,457
Term loan - net of current portion	**5,119**	-
Bonds payable - net of current portion	**18,035**	18,545
Deferred lease obligations	**8,681**	9,863
Other liabilities	**754**	1,102
Total liabilities	**166,058**	144,967
Minority interest	**10,595**	4,969
Commitments and contingencies		
Net assets		
Unrestricted		
Designated	**189,147**	169,813
Undesignated	**34,317**	28,564
Temporarily restricted	**58,508**	65,013
Total net assets	**281,972**	263,390
Total liabilities and net assets	**$ 458,625**	**$ 413,326**

See accompanying notes to the consolidated financial statements.

Public Broadcasting Service and Subsidiaries

Consolidated Statements of Activities

Years ended June 30, *(in thousands)*	2013 Unrestricted Designated	2013 Unrestricted Undesignated	2013 Temporarily Restricted	2013 Total	2012 Unrestricted Designated	2012 Unrestricted Undesignated	2012 Temporarily Restricted	2012 Total
Changes in net assets								
Revenues, Gains, and Other Support								
Imputed value of donated broadcast rights	$ 158,652	$ -	$ -	$ 158,652	$ 157,110	$ -	$ -	$ 157,110
Member assessments	151,431	34,896	-	186,327	149,184	33,474	-	182,658
Grants and contributions	700	942	78,820	80,462	-	3	63,486	63,489
Video	-	89,825	-	89,825	-	59,162	-	59,162
Royalties	372	58,610	-	58,982	217	29,733	-	29,950
Satellite services	-	756	488	1,244	-	3,474	414	3,888
Investment return, net	11,909	(4)	(1,015)	10,890	(1,158)	(93)	(1,043)	(2,294)
Other	1,551	9,457	110	11,118	213	11,345	144	11,702
Net assets released from restrictions	29,074	55,834	(84,908)	-	39,233	47,918	(87,151)	-
Total revenues, gains, and other support	353,689	250,316	(6,505)	597,500	344,799	185,016	(24,150)	505,665
Expenses								
Program services								
Programming	318,351	16,999	-	335,350	324,247	7,881	-	332,128
Promotion	27,529	4,138	-	31,667	24,890	4,374	-	29,264
Member services	1,885	11,773	-	13,658	2,019	13,536	-	15,555
Interconnection and technical services	4,137	41,972	-	46,109	2,741	44,756	-	47,497
Educational grants	-	12,790	-	12,790	-	11,902	-	11,902
Ventures	211	92,920	-	93,131	306	58,606	-	58,912
Royalties and other	9	2,058	-	2,067	15	2,235	-	2,250
Total program services	352,122	182,650	-	534,772	354,218	143,290	-	497,508
Supporting services								
Management and general	2,615	23,757	-	26,372	3,188	21,404	-	24,592
Fundraising	133	2,082	-	2,215	88	2,083	-	2,171
Total supporting services	2,748	25,839	-	28,587	3,276	23,487	-	26,763
Total expenses	354,870	208,489	-	563,359	357,494	166,777	-	524,271
Change in net assets before minority interest, unrealized gain (loss) on interest rate swap and net asset transfers	(1,181)	41,827	(6,505)	34,141	(12,695)	18,239	(24,150)	(18,606)
Minority interest	-	(15,913)	-	(15,913)	-	(9,043)	-	(9,043)
Unrealized gain (loss) on interest rate swap	-	354	-	354	-	(4)	-	(4)
Net asset transfers	20,515	(20,515)	-	-	7,499	(7,499)	-	-
Change in net assets	19,334	5,753	(6,505)	18,582	(5,196)	1,693	(24,150)	(27,653)
Net assets, beginning of year	169,813	28,564	65,013	263,390	175,009	26,871	89,163	291,043
Net assets, end of year	$ 189,147	$ 34,317	$ 58,508	$ 281,972	$ 169,813	$ 28,564	$ 65,013	$ 263,390

See accompanying notes to the consolidated financial statements.

Public Broadcasting Service and Subsidiaries

Consolidated Statements of Cash Flows

Years ended June 30, *(in thousands)*	**2013**	2012
Cash flows from operating activities:		
Change in net assets	**$ 18,582**	$ (27,653)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	**9,260**	11,856
Amortization of broadcast rights	**137,052**	141,374
Loss on disposal of property and equipment	**1,286**	-
Bad debt expense	**3,477**	2,531
Minority interest	**5,626**	743
Realized (gains) losses on sale of investments	**(4,013)**	7,245
Unrealized gains on investments	**(1,948)**	(949)
Unrealized (gain) loss on interest rate swap	**(354)**	4
Decrease (increase) in assets		
Accounts receivable	**(36,736)**	(14,388)
Inventory	**(1,995)**	(442)
Prepaid satellite leases	**577**	(12,625)
Prepaid expenses and other assets	**(3,464)**	1,257
Unamortized broadcast rights	**(143,220)**	(141,869)
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	**23,728**	20,142
Cable and license fees payable	**(615)**	16,844
Deferred revenue and other liabilities	**1,600**	822
Tax liability	**-**	(69)
Deferred lease obligations	**(1,182)**	(714)
Net cash provided by operating activities	**7,661**	4,109
Cash flows from investing activities:		
Use of restricted cash	**906**	19
Proceeds from sale of investments	**389,187**	307,407
Purchases of investments	**(387,016)**	(307,777)
Purchases of property and equipment	**(10,383)**	(8,417)
Net cash used in investing activities	**(7,306)**	(8,768)
Cash flows from financing activities:		
Repayment of term loan	**(1,601)**	-
Repayment of bonds payable	**(485)**	(470)
Proceeds from line of credit	**-**	8,000
Net cash (used in) provided by financing activities	**(2,086)**	7,530
Net (decrease) increase in cash	**(1,731)**	2,871
Cash, beginning of year	**32,389**	29,518
Cash, end of year	**$ 30,658**	$ 32,389
Supplemental cash flow information:		
Cash paid for interest	**$ 594**	$ 632

See accompanying notes to the consolidated financial statements.

1. Summary of Accounting Policies

General

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

PBS Enterprises, Inc. (PBSE), a wholly-owned for-profit subsidiary of PBS, was incorporated in December 1984. PBSE was organized to pursue revenue-producing projects and services as part of an ongoing effort to increase public television's financial base. National Datacast, Inc. (NDI) was incorporated in May 1988 and is a majority-owned subsidiary of PBSE. NDI ceased operations in 2013. Minority equity interests totaling 11.42% are held by one of NDI's customers and three PBS member stations and are reflected as minority interest in the accompanying consolidated statements of financial position.

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 future permanent endowment to ensure PBS's continued excellence, and to promote and enhance outstanding public broadcasting programs and services.

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

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 in the home and educational video and digital markets as well as from international program sales. The 40% minority interest, owned by the member station 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, NDI, PBS Foundation, PBS Digital, LLC, and PBSd (collectively referred to as "the Company"). All inter-company balances and transactions have been eliminated in consolidation.

Basis of Accounting

The consolidated financial statements of the Company have been prepared on the accrual basis of accounting.

Accounting Pronouncements Adopted

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* (ASU No. 2011-04). ASU No. 2011-04 amended Accounting Standards Codification (ASC) No. 820, *Fair Value Measurements and Disclosures*, to provide a consistent definition of fair value and improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and IFRSs. Some of the amendments clarify the application of existing fair value measurement and disclosure requirements, while other amendments change a particular principle or requirement for measuring fair value or disclosing information about fair value measurements. The amendments are to be applied prospectively and are effective for annual periods beginning after December 15, 2011. The adoption of this standard did not have a material effect on the Company's consolidated financial position and activities. Additional disclosures required by the standard were included in the consolidated financial statements in Note 18.

In February 2013, FASB issued ASU 2013-03, *Financial Instruments (Topic 825): Clarifying the Scope and Applicability of a Particular Disclosure to Nonpublic Entities* (ASU 2013-03). This Update was issued to resolve an inconsistency within ASU 2011-04. In that ASU, FASB expressed an intent to exempt nonpublic entities from the requirement to disclose the level of the fair value hierarchy within which the fair value measurements are categorized (Level 1, 2 or 3) for items that are not measured at fair value in the balance sheet, but for which fair value is disclosed in the footnotes. However, the text itself in ASU 2011-04 suggested that nonpublic entities would not qualify for the intended exemption if the entity has total assets greater than $100 million or has one or more derivative instruments. To address this conflict, the amendments in ASU 2013-03 confirm that a nonpublic entity is not required to provide the disclosure mentioned above, regardless of whether its assets exceed $100 million or holds a derivative instrument. The amendment was effective immediately upon issuance for nonpublic entities beginning February 2013. The adoption of this standard did not have a material effect on the Company's consolidated financial position and activities.

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.

Revenues and gains on investments are reported as increases in unrestricted net assets unless their use is limited by donor-imposed stipulations. 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.

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 return in the consolidated statements of activities.

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

Accounts Receivable

Accounts receivable consists primarily of amounts due from member stations 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 $7.7 million and $4.9 million at June 30, 2013 and 2012, 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 and/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
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 which consists of approximately 2,700 hours of programming and related promotion, and fundraising programming and support. Non-programming related services include PBS Interactive, education, and development. The assessment 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, 2013, 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, to the extent that total revenue does not exceed the 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 and on-demand video is recognized in the period in which the DVD is shipped to the customer or the content is downloaded.

Royalties – Royalty revenue is recorded in the period in which it is earned, except when the amount of revenue cannot be reasonably determined before it is received, in which case 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 and fees received by NDI for data broadcasting services provided to customers are recognized in the period in which the related services are provided.

License Fees **-** Included within other revenue in the consolidated statements of activities is revenue from PBSd's video distribution agreements that is recognized upon receipt of billing activity from the mass retail distribution partner. In addition, revenue earned from the licensing of programming for international distribution is recognized once all program masters and deliverables have been delivered to the customer and a formal contract is executed. Revenue from Children's Network, LLC is recognized when the programs are selected for airing on PBS Kids Sprout.

Advertising Expenses

PBS expenses the costs of advertising, 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 PBS and PBSd's product catalogs. Total direct-response advertising expense was $2.3 million and $2.5 million, respectively, in 2013 and 2012.

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

No provision has been made by PBS for federal income tax for the years ended June 30, 2013 and 2012 since unrelated business income in those years will be offset by net operating loss carry forwards. As of June 30, 2013 and 2012, PBS has not recorded a deferred tax asset for net operating loss carry forwards, since their realization is uncertain.

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

The Company adopted the provisions of ASC 740-10, *Income Taxes*, on July 1, 2007. Under ASC 740-10, 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 implementation of ASC 740-10 had no impact on the Company's consolidated financial statements. The Company does not believe there are any unrecognized tax benefits that should be recorded. For the years ended June 30, 2013 and 2012, there was no interest or penalties recorded or included in the consolidated statements of activities. The Company is still open to examination by taxing authorities from fiscal year 2010 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 support services benefited.

Use of Estimates in the Preparation of Financial Statements

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

Reclassifications

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

2. Description of Functional Activities

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

Programming – Represents approximately 2,700 hours of broadcast services, provided by PBS to its 163 member public television licensees, and is dedicated 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 promotional messages, 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's member stations, including PBS Interactive, development, and copyright administration.

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

Educational Grants – Represents activity related primarily to grants received from the Corporation for Public Broadcasting and the United States Department of Education.

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

Royalties and Other – Represents amounts distributed to public broadcasting stations and producers from cable and license fee revenue received from cable and satellite providers; costs associated with the oversight of activities related to the Children's Network, LLC; amounts paid to PBS member stations for providing services related to PBS's local marketing affiliation agreement with the Children's Network, LLC; and fees related to certain programs that air on PBS Kids Sprout.

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

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

3. Concentrations of Credit Risk

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

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

Approximately 37% and 50% of the Company's accounts receivable as of June 30, 2013 and 2012, 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. Restricted Cash

As of June 30, 2012, restricted cash consisted of funds in an escrow account that is used to pay interest on outstanding bonds. The new agreement for the refinancing of these bonds effective August 1, 2012 no longer includes this requirement and therefore there is no restricted cash balance at June 30, 2013.

5. Investments

The Company's investments consist of the following as of June 30, 2013 and 2012 (in thousands):

	2013	
	Cost	**Fair Value**
Short Term:		
Fixed income funds	**$ 80,843**	**$ 77,336**
Money market	**11**	**11**
	80,854	**77,347**
Long Term:		
Money market	**249**	**249**
Fixed income funds	**18,004**	**17,454**
U.S. equity securities	**64,874**	**73,963**
Investment in fund of funds	**12,774**	**7,813**
	95,901	**99,479**
	$ 176,755	**$ 176,826**

	2012	
	Cost	**Fair Value**
Short Term:		
Fixed income funds	$ 73,797	$ 73,552
Commercial paper	6,010	6,010
Money market	3,391	3,391
	83,198	82,953
Long Term:		
Money market	520	521
Fixed income funds	15,423	16,656
U.S. equity securities	15,551	17,118
International equity securities	40,524	43,401
Managed futures funds	100	82
Investment in fund of funds	19,604	12,305
	91,722	90,083
	$ 174,920	$ 173,036

Investment returns for the years ended June 30, 2013 and 2012 consist of the following (in thousands):

	2013	2012
Interest and dividends	**$ 4,929**	$ 4,002
Realized gains (losses)	**4,013**	(7,245)
Unrealized gains	**1,948**	949
	$ 10,890	$ (2,294)

Interest and dividends are reported net of related expenses, such as custodial, commission, and investment advisory fees. Such expenses amounted to $273,000 and $301,000 for the years ended June 30, 2013 and 2012, respectively.

6. Prepaid Satellite Leases

In April 2006, PBS entered into lease agreements for transponders on SES Americom's AMC-1, AMC-3, AMC-4, and AMC-21 satellites. The leases began on various dates beginning in April 2006 and end on various dates through September 2016.

As of June 30, 2013 and 2012, the payments made to SES Americom for the AMC-21 transponder lease for future periods was $12.0 million and $12.6 million, respectively. These amounts are included in prepaid satellite leases in the accompanying consolidated statements of financial position.

7. Fixed Assets

In June 2013 PBS completed a renovation project of the PBS Satellite Operations Center (SOC). Project costs of $8.1 million were incurred through June 30, 2013. These costs were capitalized and are included in the land and building category of fixed assets in the consolidated statements of financial position. Depreciation began on these assets June 1, 2013 when the project was completed and the SOC was ready for use. There are no liens against these assets. Interest expense totaling $39,000 has been capitalized related to this project.

8. Debt

Line of Credit

On May 31, 2013, PBS entered into a new credit facility, that is a committed line of credit of up to $20.0 million, set to expire on May, 31, 2014. This facility replaces the $20.0 million line of credit that expired on May 31, 2013. The line of credit incurs interest at LIBOR + 0.50% (or 0.69% at June 30, 2013). PBS also pays a 0.10% fee on the unused balance of the commitment.

As of June 30, 2013, there was no amount outstanding on the line of credit facility. As of June 30, 2012, there was $8.0 million outstanding on the line of credit facility that expired on May 31, 2013.

Term Loan

Effective May 31, 2013, the $8.0 million of borrowing by PBS on the $8.0 million construction sub-limit of the $20.0 million committed line of credit that expired on May 31, 2013, was converted to an unsecured term loan with a five-year maturity. PBS subsequently prepaid without penalty $1.6 million of the term loan principal leaving a balance of $6.4 million outstanding as of June 30, 2013. The $6.4 million principal balance will be paid pro-rata in annual installments over the five year term of the agreement. The unsecured term loan incurs interest at a fixed interest rate of 2.22%.

Interest expense related to the lines of credit for the years ended June 30, 2013 and 2012 was $34,000 and $97,000, respectively. Interest expense related to the term loan for the year ended June 30, 2013 was $5,000.

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 of 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. As of June 30, 2013, the bond principal outstanding was $18.5 million.

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

Under the new agreement, the bank purchased all of the re-issued Series 2005 bonds with an aggregate outstanding principal balance of $18,545,000. The agreement has a term of approximately nine and a half years. The bonds will be held by the bank until the termination of this agreement on February 1, 2022. The bonds will continue to be redeemed annually based on the initial repayment schedule established at the issuance of the Series 2005 bonds and will retain the original July 1, 2035 final maturity date. Interest on the bonds accrues at a rate of 77% of 30-day LIBOR + 85 basis points (or 1.04% at June 30, 2013).

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

Years ending June 30,	
2014	$ 510
2015	525
2016	550
2017	570
2018	595
Thereafter	15,795
	$ 18,545

In 2005, PBS obtained an unsecured letter of credit to secure repayment of the bonds. The letter of credit constitutes an irrevocable obligation to pay the bond trustee the sum of the principal amount of the bonds outstanding. The letter of credit had a term of ten years and was scheduled to expire in 2015. This letter of credit was terminated on August 1, 2012 as part of the bond refinancing.

PBS is subject to certain financial covenants under the line of credit, term loan and bond refinancing agreements. All covenants have been met by PBS as of June 30, 2013.

Interest expense related to the bonds payable for the years ended June 30, 2013 and 2012 was $168,000 and $39,000 respectively.

9. Derivatives

On June 28, 2005, PBS executed a ten year swap agreement (the Swap) to manage the variability of the interest expense associated with PBS's variable rate term debt. The notional amount of the Swap is equal to 75% of the outstanding principal of the Series 2005 bonds. Under the Swap agreement, PBS pays a fixed annual interest rate of 2.995% on the notional amount and receives a variable interest rate based on the notional amount of the Swap multiplied by an interest rate equal to 67% of LIBOR. The terms of the Swap provide for net receipt or payment between counterparties on the first business day of each month. The differential between the fixed and variable rate is recorded as a component of interest expense.

As of June 30, 2013 and 2012, the interest rate swap agreement has a net liability position of $754,000 and $1,108,000, respectively.

The table below provides an analysis of PBS's derivative on its financial operations and year end consolidated statements of financial position which consisted of the following at June 30 (in thousands):

		2013	2012
	Consolidated Statements of Financial Position	**Fair Value**	Fair Value
Interest rate swap derivative	Other liabilities	**$ 754**	$ 1,108

The effect of PBS's interest rate swap derivative on the consolidated statements of activities consists of the following for the years ended June 30 (in thousands):

		2013	2012
	Consolidated Statements of Activities		
Interest rate swap derivative	Unrealized gain (loss) on interest rate swap	**$ 354**	$ (4)
Interest expense	Management and general	**$ 570**	$ 445

PBS's interest rate swap agreement contains certain provisions that require PBS's tax exempt debt to maintain an investment grade credit rating from each of the major credit rating agencies. If the rating of PBS's debt were to fall below investment grade status, it would be a violation of the agreement and the counterparty could request immediate payment or demand immediate and ongoing full overnight collateralization on the interest rate swap liability position. As of June 30, 2013, the tax exempt debt maintained its investment grade credit rating.

10. Minority Interest

Minority interest represents the ownership interests of the minority owners in NDI and PBSd of 11.42% and 40% respectively. The amounts shown in the Statements of Activities represent the minority owners' share of the net income (loss) of the companies for the fiscal years then ended. The amounts shown in the Statements of Financial Position and Statements of Cash Flows are net of cash distributions by the companies to the minority owners.

The minority interest balance for the years ended June 30, 2013 and 2012 consists of the following (in thousands):

	2013	2012
Beginning balance, minority interest	**$ 4,969**	$ 4,226
Share of PBSd and NDI fiscal year net income (loss)	**15,913**	9,043
Cash distributions to minority ownership	**(10,287)**	(8,300)
Ending balance, minority interest	**$ 10,595**	$ 4,969

11. Designated Net Assets

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

	2013	2012
Content	**$ 156,540**	$ 145,703
Property	**7,672**	11,860
Digital content initiatives	**15,719**	10,139
Roadmap to the Future	**11,266**	3,645
Strategic investment	**2,272**	2,174
Investment losses	**(4,505)**	(3,890)
Others	**183**	182
	$ 189,147	$ 169,813

12. Temporarily Restricted Net Assets

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

	2013	2012
Programming	**$ 27,437**	$ 29,551
Interconnection and technical services	**21,797**	26,672
Grants	**9,274**	8,790
	$ 58,508	$ 65,013

13. Net Assets Released from Restrictions

Net assets were released from donor restrictions during the years ended June 30, 2013 and 2012 as follows (in thousands):

	2013	2012
Programming	**$ 64,573**	$ 39,233
Grants	**14,994**	29,448
Interconnection and technical services	**5,341**	18,470
	$ 84,908	$ 87,151

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 $158.7 million and $157.1 million for the years ended June 30, 2013 and 2012, respectively.

15. Retirement Plans

Retirement benefits are provided for all eligible employees under a defined contribution retirement 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 $2.8 million and $2.7 million in 2013 and 2012, 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, 2013, as follows (in thousands):

Years ending June 30,	
2014	$ 5,462
2015	5,554
2016	5,573
2017	4,804
2018	4,780
Thereafter	13,208
	$ 39,381

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's 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 $4.7 million and $4.4 million in 2013 and 2012, 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 $67.9 million for programs that have not yet been made available for broadcast. These commitments will be funded primarily from the member assessments and 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

The Company adopted ASC 820 in 2009. ASC 820 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that inputs that are most observable be used when available. Observable inputs are inputs that market participants operating within the same marketplace as the Company would use in pricing the Company's asset or liability based on independently derived and observable market data. Unobservable inputs are inputs that cannot be sourced from a broad active market in which assets or liabilities identical or similar to those of the Company are traded. The Company estimates the price of such assets for which there are only unobservable inputs by using assumptions that market participants that have investments in the same or similar assets would use as determined by the money managers for each investment based on best information available in the circumstances.

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

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

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

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

The following table sets forth the Company's financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2013 (in thousands):

Description	Level 1	Level 2	Level 3	Total
Fixed income funds	$ 94,790	$ -	$ -	$ 94,790
U.S. equity securities	73,963	-	-	73,963
Money market	260	-	-	260
Fund of funds	-		7,813	7,813
Interest rate swap	-	(754)	-	(754)
	$ 169,013	$ (754)	$ 7,813	$ 176,072

The following table sets forth the Company's financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2012 (in thousands):

Description	Level 1	Level 2	Level 3	Total
Fixed income funds	$ 90,208	$ -	$ -	$ 90,208
U.S. equity securities	17,118	-	-	17,118
Commercial paper	6,010	-	-	6,010
Money market	3,912	-	-	3,912
International equities	43,401	-	-	43,401
Managed futures fund	-	82	-	82
Fund of funds	-	-	12,305	12,305
Interest rate swap	-	(1,108)	-	(1,108)
	$ 160,649	$ (1,026)	$ 12,305	$ 171,928

The following table summarizes the change in the fair values for Level 3 items for the years ended June 30, 2013 and 2012 (in thousands):

	2013 Fund of Funds	2012 Fund of Funds
Balance, beginning of year	**$ 12,305**	$ 18,159
Total realized and unrealized investment return, net	**(271)**	(1,054)
Settlements	**(4,221)**	(4,800)
Balance, end of year	**$ 7,813**	$ 12,305

As of June 30, 2013 and 2012, an unrealized loss of $2,338,000 and an unrealized gain $1,487,000, respectively were related to investments held by the Company and classified as Level 3 assets and are included within investment return, net, on the consolidated statements of activities. There were no Level 3 security purchases, issuances, transfers or sales during the years ended June 30, 2013 and 2012, respectively.

Quantitative Information

Quantitative information as of June 30, 2013, with respect to assets measured and carried at fair value on a recurring basis with the use of significant unobservable inputs (Level 3) follows:

Description	Fair Value (In thousands)	Principal Valuation Techniques	Unobservable Inputs	Weighted Average
Investment in Fund of Funds	$ 7,813	Market Approach	General and local economic and social conditions resulting in fluctuations in real estate values	N/A

PBS invests in a Fund of Funds (the Fund) that utilizes a master-feeder fund structure.

Level 3 Valuation Process

The Fund Administrator conducts an independent valuation of each feeder fund and each of the underlying funds on a monthly basis after receiving investment statements directly from the brokers and the underlying fund administrators. The Fund Administrator also verifies all cash positions and reconciles the balances of the underlying funds to the relevant broker/bank utilized by the funds on a monthly basis. The Fund's expenses are reviewed and approved by the Fund's investment manager.

After the completion of the Fund's monthly valuation process, the Fund Administrator forwards the completed statement to the investment manager for independent validation. The investment manager, with the assistance of the Fund's advisor, utilizes the valuations reported by the underlying fund administrators and takes into consideration the expenses incurred at the Fund level. The Fund's monthly valuation statements are issued after the valuations have been reviewed and approved to be distributed by the investment manager. The investment advisor has regular calls with PBS's management to review the valuation statements and ongoing activities of the funds.

Additionally, the investment advisor performs on-going due diligence of the underlying feeder funds which includes receiving and reviewing the monthly and quarterly reports from the underlying investment managers and monitoring investments through regular correspondence and on-site visits with the investment managers and executives.

There were no changes in valuation techniques noted for these funds for 2013 and 2012.

Level 3 Sensitivity of Fair Value Measurements and Changes in Significant Observable Inputs

The significant unobservable inputs used in the fair value measurement of the Fund and its sub funds are subject to market, interest rate, credit, liquidity and currency risks as the result of the investments these funds make.

The underlying funds are subject to losses due to the change in market values of the investments held. The Fund investment manager seeks to moderate this risk by diversification of the investment portfolio of the investments in underlying funds and other financial instruments.

The majority of the Fund and sub fund financial assets and liabilities are non-interest bearing except for loans granted to sub-funds by the Fund. However, the Fund may be indirectly exposed to interest rate risk to the extent of which changes in interest rates may impact the valuation of investments held by the underlying investment funds and the interest income earned by those underlying funds.

The Fund is exposed to credit risk to the extent by which counterparties may fail to perform pursuant to the terms of their obligations to the Fund. The Fund seeks to moderate this risk by limiting its counterparties to institutions with acceptable credit ratings and/or financial positions, as well as adequately collateralizing credit risk exposure where necessary. The Fund's main credit risk is comprised of its cash and cash equivalent balances held in a bank.

The Fund is exposed to liquidity risk to the extent that the Fund would be unable to meet commitments to shareholders or that the investment manager could not readily change its portfolio composition due to restrictions associated with access to investments in underlying funds. The Fund invested in investment funds which are not listed on a stock exchange or otherwise publically traded. As a consequence, illiquidity may result from the absence of an established market and from the contractual terms and conditions of such investments governing redemptions, withdrawals, transfers and sales of such investments. Certain underlying funds have the ability to impose gates, suspend redemptions and place illiquid designated investments into newly issued illiquid funds.

The Board of Directors of the Fund resolved on February 26, 2010 to undertake a revised investment strategy which aimed to achieve an orderly realization of the Fund's investments with a view to preserving value for the shareholders of the Fund. As the Fund no longer allowed redemptions or subscriptions, it plans to pay out to all shareholders on a pro-rata basis, after accruing for costs, any and all cash derived from the disposal and realization of investments.

The fund is indirectly exposed to currency risk to the extent that changes in exchange rates impacted the valuation of investments held by the underlying investment funds. All investments held by the Master Fund were made in USD denominated instruments.

Financial Assets and Liabilities

The balance of the Company's financial assets and liabilities as of June 30, 2013 and 2012 are classified in the consolidated statements of financial position as follows (in thousands):

	2013	2012
Cash	**$ 30,658**	$ 32,389
Restricted cash	**-**	906
Cash – total	**30,658**	33,295
Investments – current	**77,347**	82,953
Investments – noncurrent	**99,479**	90,083
Investments – total	**176,826**	173,036
Line of credit	**-**	(8,000)
Term loan	**(6,399)**	-
Bonds payable	**(18,545)**	(19,030)
Other liabilities	**(754)**	(1,102)
Liabilities – total	**(25,698)**	(28,132)
	$ 181,786	$ 178,199

Investments

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

The valuation of the managed futures fund, which was liquidated in 2013, was based on the net asset value reported by the fund as of the measurement date. The managed futures fund engaged in the speculative trading of futures contracts, forward currency contracts, and options on forward currency contracts.

The Fund is valued based on an estimated net assets value per share. As of June 30, 2013, the fair value of the Fund was $7.8 million. During 2008, the Fund announced that it would begin liquidating the fund by prudently redeeming assets from the underlying managers pursuant to the underlying managers' redemption schedules. Full distribution of the Fund is expected to be achieved by 2018. The Company has no unfunded commitments associated with this investment.

Line of Credit

The fair value of the line of credit is based on the short term nature of the line of credit, the repayment requirements and variable rate of interest incurred monthly.

Term Loan

The fair value of the term loan is estimated based on the current rates offered to the Company for debt of the same remaining maturities. The term loan incurs interest at a fixed rate.

Bonds Payable

The fair value of the bonds payable is estimated based on current rates offered to the Company for debt of the same remaining maturities. The bonds incur interest at a variable rate that resets weekly.

Interest Rate Swap

The amounts reported relate to the interest rate swap agreement described in Note 8. 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 evaluated subsequent events through November 14, 2013 which is the date the consolidated financial statements were available to be issued. On November 13, 2013, PBS Digital, LLC, a wholly owned subsidiary of PBS, sold its minority equity interest in Children's Network, LLC. No other subsequent events were identified that required adjustment or disclosure to the consolidated financial statements.