Public Broadcasting Service and Subsidiaries

Consolidated Financial Statements and Independent Auditors' Report

Years Ended June 30, 2010 and 2009

The report accompanying these financial statements was issued by
BDO USA, LLP, a Delaware limited liability partnership and the U.S. member of
BDO International Limited, a UK company limited by guarantee.

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Years Ended June 30, 2010 and 2009

Contents

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Independent Auditors' Report

To the Board of Directors
Public Broadcasting Service
Arlington, Virginia

We have audited the accompanying consolidated statements of financial position of the **Public Broadcasting Service and Subsidiaries** (the Company) as of June 30, 2010 and 2009, and the related consolidated statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2010 and 2009, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

BDO USA, LLP

December 22, 2010

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

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Consolidated
Financial Statements

June 30,	**2010**	2009
(in thousands)		
Assets		
Current assets		
Cash	**$ 12,977**	$ 22,905
Restricted cash	**385**	434
Investments	**56,011**	21,308
Accounts receivable, net	**96,993**	60,470
Inventory, net	**2,196**	2,302
Prepaid satellite leases - current portion	**1,283**	5,132
Prepaid expenses and other assets	**5,308**	5,199
Total current assets	**175,153**	117,750
Property and equipment		
Land and building	**11,219**	10,935
Satellite transponder	**6,712**	6,712
Broadcasting equipment	**54,370**	47,447
Furniture and equipment	**5,089**	5,103
Computer and software	**24,624**	20,170
Leasehold improvements	**15,923**	15,825
	117,937	106,192
Less accumulated depreciation and amortization	**(69,502)**	(56,877)
Property and equipment, net	**48,435**	49,315
Other noncurrent assets		
Unamortized broadcast rights	**84,758**	81,167
Investments, net of current portion	**124,328**	118,090
Prepaid satellite leases, net of current portion	**-**	1,283
Accounts receivable, net of current portion	**7,732**	15,095
Other assets	**5,676**	5,533
Total other noncurrent assets	**222,494**	221,168
Total assets	**$ 446,082**	$ 388,233

Public Broadcasting Service and Subsidiaries

Consolidated Statements of Financial Position

June 30, *(in thousands)*	**2010**	2009
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	**$ 71,733**	$ 55,335
Cable and license fees payable	**12,256**	13,371
Line of credit	**3,523**	-
Deferred revenue		
Programming	**248**	249
Other	**3,061**	4,729
Total current liabilities	**90,821**	73,684
Bonds payable	**19,500**	19,500
Deferred lease obligations	**11,170**	11,722
Note payable	**-**	320
Other liabilities	**1,192**	785
Total liabilities	**122,683**	106,011
Minority interest	**3,903**	3,161
Commitments and contingencies		
Net assets		
Unrestricted		
Designated	**162,561**	154,103
Undesignated	**26,168**	28,604
Temporarily restricted	**130,767**	96,354
Total net assets	**319,496**	279,061
Total liabilities and net assets	**$ 446,082**	**$ 388,233**

Public Broadcasting Service and Subsidiaries

Consolidated Statements of Activities

Years ended June 30,	2010				2009			
(in thousands)	Unrestricted		Temporarily		Unrestricted		Temporarily	
	Designated	Undesignated	Restricted	Total	Designated	Undesignated	Restricted	Total
Changes in net assets								
Revenue, Gains, and Other Support								
Imputed value of donated broadcast rights	**$ 192,051**	**$ -**	**$ -**	**$ 192,051**	$ 228,616	$ -	$ -	$ 228,616
Member program assessments	**151,143**	**1,487**	**-**	**152,630**	165,794	1,495	-	167,289
Member service assessment	**4,566**	**27,895**	**-**	**32,461**	7,683	24,858	-	32,541
Grants and contributions	**4,002**	**348**	**96,814**	**101,164**	256	136	54,537	54,929
Video	**-**	**48,632**	**-**	**48,632**	-	37,317	-	37,317
Royalties	**130**	**20,140**	**-**	**20,270**	1,131	17,000	-	18,131
Satellite services	**-**	**2,060**	**-**	**2,060**	-	3,154	-	3,154
Investment return, net	**11,407**	**1,397**	**(786)**	**12,018**	(40,046)	(2,360)	(10,088)	(52,494)
Other	**183**	**8,287**	**1,548**	**10,018**	212	11,305	1,574	13,091
Net assets released from restrictions	**42,894**	**20,269**	**(63,163)**	**-**	59,029	16,135	(75,164)	-
Total revenue	**406,376**	**130,515**	**34,413**	**571,304**	422,675	109,040	(29,141)	502,574
Expenses								
Program services								
Programming	**355,247**	**8,713**	**-**	**363,960**	407,550	9,011	-	416,561
Promotion	**22,049**	**4,107**	**-**	**26,156**	36,293	4,505	-	40,798
Member services	**2,739**	**15,951**	**-**	**18,690**	3,516	17,890	-	21,406
Interconnection and technical services	**11,631**	**19,046**	**-**	**30,677**	10,332	18,244	-	28,576
Educational grants	**-**	**11,972**	**-**	**11,972**	-	9,245	-	9,245
Ventures	**328**	**48,501**	**-**	**48,829**	595	34,199	-	34,794
Royalties and other	**42**	**6,359**	**-**	**6,401**	38	9,429	-	9,467
Total program services	**392,036**	**114,649**	**-**	**506,685**	458,324	102,523	-	560,847
Supporting services								
Management and general	**3,416**	**19,463**	**-**	**22,879**	3,293	17,079	-	20,372
Fundraising	**47**	**845**	**-**	**892**	53	1,183	-	1,236
Total supporting services	**3,463**	**20,308**	**-**	**23,771**	3,346	18,262	-	21,608
Total expenses	**395,499**	**134,957**	**-**	**530,456**	461,670	120,785	-	582,455
Change in net assets before unrealized loss on interest rate swap and net asset transfers	**10,877**	**(4,442)**	**34,413**	**40,848**	(38,995)	(11,745)	(29,141)	(79,881)
Unrealized loss on interest rate swap	**-**	**(413)**	**-**	**(413)**	-	(671)	-	(671)
Net asset transfers	**(2,419)**	**2,419**	**-**	**-**	(9,196)	9,196	-	-
Change in net assets	**8,458**	**(2,436)**	**34,413**	**40,435**	(48,191)	(3,220)	(29,141)	(80,552)
Net assets, beginning of year	**154,103**	**28,604**	**96,354**	**279,061**	202,294	31,824	125,495	359,613
Net assets, end of year	**$ 162,561**	**$ 26,168**	**$ 130,767**	**$ 319,496**	$ 154,103	$ 28,604	$ 96,354	$ 279,061

Public Broadcasting Service and Subsidiaries

Consolidated Statements of Cash Flows

Years ended June 30,		**2010**		2009
(in thousands)				
Cash flows from operating activities:				
Change in net assets	**$**	**40,435**	$	(80,552)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:				
Depreciation and amortization of property and equipment		**12,675**		11,270
Amortization of broadcast rights		**140,037**		155,258
Loss on disposal of property and equipment		**20**		3
Inventory write-down		**129**		-
Bad debt expense		**914**		142
Reserve against producer advances		**-**		174
Minority interest		**742**		921
Realized (gains) losses on sales of investments		**(1,393)**		44,847
Unrealized (gains) losses on investments		**(6,734)**		13,483
Unrealized loss on interest rate swap		**413**		671
Decrease (increase) in assets				
Accounts receivable		**(30,074)**		9,565
Inventory		**(23)**		(830)
Prepaid satellite leases		**5,132**		(4,944)
Prepaid expenses and other assets		**(252)**		(3,356)
Unamortized broadcast rights		**(143,628)**		(146,641)
Increase (decrease) in liabilities				
Accounts payable and accrued expenses		**16,398**		(25,040)
Cable and license fees payable		**(1,115)**		(4,592)
Deferred revenue and other liabilities		**(1,675)**		(13,350)
Deferred lease obligations		**(552)**		(381)
Net cash provided by (used in) operating activities		**31,449**		(43,352)
Cash flows from investing activities:				
Use of restricted cash		**49**		309
Purchases of investments		**(505,601)**		(329,455)
Proceeds from sales of investments		**472,787**		375,363
Purchases of property and equipment		**(11,815)**		(11,219)
Net cash (used in) provided by investing activities		**(44,580)**		34,998
Cash flows from financing activities:				
Proceeds from line of credit		**3,523**		-
(Repayment of) borrowing on note payable		**(320)**		320
Net cash provided by financing activities		**3,203**		320
Net decrease in cash		**(9,928)**		(8,034)
Cash, beginning of year		**22,905**		30,939
Cash, end of year	**$**	**12,977**	$	22,905
Supplemental cash flow information:				
Cash paid for interest	**$**	**481**	$	547
Cash paid for taxes	**$**	**-**	$	53

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. Minority equity interests totaling 11.42 percent 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 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 video-on-demand service. The new services are managed by the Children's Network, LLC, in which PBS owns a 15% 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.

On January, 1, 2009, PBS, in partnership with a member station, created Public Media Distribution, LLC (PBSd) to promote the educational mission of public broadcasting and other media through worldwide distribution of public television content and other high quality content as provided by and on behalf of its Members by distributing public television programs in the home and educational video and digital markets as well as in international program sales. PBS owns a 60 percent interest in PBSd. The 40 percent 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.

Recent Accounting Pronouncements

Financial Accounting Standards Board (FASB) Codification

The FASB issued Accounting Standards Codification (ASC) Topic 105, *Generally Accepted Accounting Principles*, which became the single source of authoritative nongovernmental U.S. generally accepted accounting principles (GAAP) recognized by FASB. The codification is effective for interim or annual financial periods ending after September 15, 2009. The accompanying financial statements of the Company include references to the codification.

ASC 820 (Formerly SFAS No. 157, "Fair Value Measurements")

In 2006, the FASB issued Statement of Financial Accounting Standards No. 157 (SFAS 157), *Fair Value Measurements* (now codified as ASC 820-10), which clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value and expands disclosures regarding fair value measurement. SFAS 157 is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. Effective July 1, 2008, the Company adopted SFAS 157. The implementation of ASC 820 had no impact on the Company's consolidated financial statements. The Company believes all investments are stated at their proper fair market values as of June 30, 2010 and 2009.

In 2009, FASB Staff Position 157-4, *Disclosures Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions that are Not Orderly* (FSP), was issued and later codified into ASC 820, which expanded disclosures and required that major categories for debt and equity securities in the fair value hierarchy table be determined on the basis of the nature and risks of investments. This guidance was adopted by the Company for the year ended June 30, 2010.

In September 2009, the FASB issued Accounting Standards Update (ASU) 2009-12, *Fair Value Measurements and Disclosures (Topic 820) – Investment in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent).* The ASU 2009-12 permits the use of net asset value per share, without further adjustment, to estimate the fair value of investments in investment companies that do not have readily determinable fair values. This guidance also required additional disclosure of the investments within the scope of the ASU. This guidance is effective for periods ending after December 15, 2009. This guidance was adopted by the Company for the year ended June 30, 2010.

Accounting Pronouncement to be Adopted

ASU No. 2010-06, "Fair Value Measurement and Disclosure"

In January 2010, the FASB issued ASU 2010-06, *Fair Value Measurement and Disclosures* (ASU 2010-06), which amends ASC 820, adding new disclosure requirements for Levels 1 and 2. Separate disclosures of purchases, sales, issuances, and settlements relating to Level 3 measurements and clarification of existing fair value disclosures. ASU 2010-06 is effective for periods beginning after December 15, 2009, except for the requirement to provide Level 3 activity of purchases, sales, issuances, and settlements on a gross basis, which will be effective for fiscal years beginning after December 15, 2010. The application of this guidance will only affect disclosures to the 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.

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 statements of financial position.

Financial Instruments and Credit Risk

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. Credit risk with respect to accounts receivable is limited because the Company deals with a large number of customers over a wide geographic area.

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 $2.2 million and $1.4 million at June 30, 2010 and 2009, respectively.

Inventory

Inventory, which consists primarily of DVDs, catalogs and print packaging for the wholesale (large businesses which purchase from PBSd in bulk and resell to the consumer) and consumer (PBSd selling directly to the consumer via websites and other outlets) markets, is stated at the lower of cost or market. Prior to January 1, 2009, all inventory was owned by PBS and cost was determined using the standard cost method. On January 1, 2009, PBS sold its inventory to PBSd. 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.

Reclassifications

Certain amounts included in the 2009 consolidated financial statements have been reclassified to conform to the 2010 presentation.

Revenue Recognition

Member Program Assessments – PBS member stations pay an annual member program assessment for access to, and the related broadcast rights of, the National Program Service, which consists of approximately 2,300 hours of programming and related promotion. The assessment is recognized in the fiscal year to which the assessment applies.

Revenue from the PBS Plus program service is recognized over the year to which the assessment applies. Plus is assessed from September 1st through August 31st and therefore two months of the assessment are reflected in deferred revenue at June 30, 2010 and 2009.

During 2009, PBS changed the accounting for PBS Fundraising Programming assessment revenue. Revenue from this activity was previously recognized to the extent of expenses incurred but is now being fully recognized in the fiscal year to which the revenue applies as this better matches the revenue to the service being provided. The cumulative effect of this change in accounting on prior year revenue was recorded in the year the change was made due to immateriality to the consolidated financial statements taken as a whole.

Member Service Assessment – PBS member stations pay an annual Member Service Assessment for PBS interactive, development, and copyright administration. Member Service Assessment revenue is recognized in the period in which the related services are provided.

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, 2010, the Company has received conditional promises to give of approximately $6.5 million.

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 videocassettes and DVDs is recognized in the period in which the videocassette or DVD is shipped to the customer.

Royalties – Royalty revenue is recorded in the period in which it is earned, except when the amount of revenue can not 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.

License Fees - Revenue from video distribution agreements is recognized upon receipt of billing activity from the mass retail distribution partner. Revenue earned from the licensing of PBS programs for international broadcasting 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 rights to air programs on PBS Kids Sprout are purchased.

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.

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's product catalogs. Deferred advertising costs are amortized over a five-month period. As of June 30, 2010 and 2009, approximately $83,000 and $149,000, respectively, of direct-response advertising costs were deferred and included in prepaid expenses in the accompanying consolidated statements of financial position. Total direct-response advertising expense was $3.8 million and $3.6 million, respectively, in 2010 and 2009.

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.

No provision has been made by PBS for federal income tax for the years ended June 30, 2010 and 2009 since unrelated business income in those years will be offset by net operating loss carry forwards. As of June 30, 2010 and 2009, 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*, (which includes FIN 48, *Accounting for Uncertainty in 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. No interest or penalties were accrued as of July 1, 2007 as a result of the adoption of ASC 740-10. For the years ended June 30, 2010 and 2009, 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 2007 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.

2. Description of Functional Activities

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

Programming – Represents approximately 3,400 hours of broadcast services, provided by PBS to its 168 member public television licensees, which 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 awareness of the value of public television. These activities provide public television stations with a broad array of promotional support, including on-air promotional spots, 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 videotapes; 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 represented 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 videocassettes, 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, legal, human resources, and information technology, associated with the operations of the Company.

Fundraising – Represents costs of securing underwriting funds from corporate sponsors and expenses incurred by the PBS Foundation to raise funds and perform activities in support of PBS.

3. Concentration 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.

4. Restricted Cash

As of June 30, 2010 and 2009, restricted cash consists of funds in an interest reserve account that will be used to pay interest on outstanding bonds.

5. Investments

The Company's investments consist of the following as of June 30, 2010 and 2009 (in thousands):

	2010	
	Cost	**Fair Value**
Short Term:		
U.S. bond	**$ 25,795**	**$ 25,939**
International bond	**1,537**	**1,475**
Commercial paper	**28,560**	**28,560**
Money market	**37**	**37**
	55,929	**56,011**
Long Term:		
Money market	**1,034**	**1,034**
U.S. bond	**26,131**	**27,887**
International bond	**232**	**226**
U.S. equity	**24,009**	**22,956**
International equity	**53,718**	**47,507**
Managed futures funds	**381**	**345**
Investment in fund of funds	**35,670**	**24,373**
	141,175	**124,328**
	$ 197,104	**$ 180,339**

	2009	
	Cost	Fair Value
Short Term:		
U.S. bond	$ 10,409	$ 10,457
U.S. equity	14	14
International bond	1,537	1,537
Commercial paper	6,805	6,805
Money market	2,495	2,495
	21,260	21,308
Long Term:		
Money market	999	999
U.S. bond	25,918	26,107
International bond	230	233
U.S. equity	34,483	29,500
International equity	39,147	32,227
Managed futures fund	380	353
Investment in fund of funds	40,482	28,671
	141,639	118,090
	$ 162,899	$ 139,398

Investment returns for the years ended June 30, 2010 and 2009 consist of the following (in thousands):

		2010		2009
Interest and dividends	**$**	**3,891**	$	5,836
Realized gains (losses)		**1,393**		(44,847)
Unrealized gains (losses)		**6,734**		(13,483)
	$	**12,018**	$	(52,494)

Investment earnings are reported net of related expenses, such as custodial, commission, and investment advisory fees. Such expenses amounted to $365,000 and $566,000 for the years ended June 30, 2010 and 2009, 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, 2010 and 2009, the balance of payments made to SES Americom for the AMC-21 transponder lease for future periods was $1.3 million and $6.4 million, respectively. These amounts are included in prepaid satellite leases in the accompanying consolidated statements of financial position.

7. Debt

Line of Credit

In November 2005, PBS obtained an unsecured, variable-rate bank line of credit with an interest rate of LIBOR plus 30 basis points in the amount of $15 million during the months of May through August and $5 million during the months of September through April. In February 2009, the Company increased the line of credit to $15 million year round. As a result, the interest rate was increased to LIBOR plus 85 basis points. The line of credit will expire on January 31, 2011.

As of June 30, 2010, $3.5 million was outstanding on the line of credit. As of June 30, 2009, there were no amounts outstanding.

Interest expense related to the line of credit for the years ended June 30, 2010 and 2009 was $14,000 and $0, respectively.

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 calls for interest only payments through 2010 and principal and interest payments thereafter until the bonds mature in 2035.

PBS obtained an unsecured letter of credit with Bank of America 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 has a term of ten years.

PBS is subject to certain financial covenants under the loan agreement and under the terms of the letter of credit. All covenants have been met by PBS.

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

Interest expense related to the bonds payable for the years ended June 30, 2010 and 2009 was $54,000 and $266,000, respectively.

8. Derivatives

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 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, 2010, the tax exempt debt maintained its investment grade credit rating. As of June 30, 2010 and 2009, the interest rate swap agreement has a net liability position of $1.2 million and $770,000, 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:

		2010	2009
	Statement of Financial Position	**Fair Value**	Fair Value
Interest rate swap derivative	Other liabilities	**$1.2 million**	$ 770,000

The effect of the Company's interest rate swap derivative on the consolidated statements of activities consists of the following for the years ended June 30:

	Statement of Activities	**2010**	2009
Interest rate swap derivative	Unrealized loss on interest rate swap	**$ 413,000**	$ 671,000
Interest expense	Management and general	**$ 413,000**	$ 266,000

9. Designated Net Assets

Designated net assets consist of the following as of June 30, 2010 and 2009 (in thousands):

	2010	2009
Content	**$ 147,593**	$ 145,234
Property	**14,352**	10,520
Digital content initiatives	**12,161**	13,774
Roadmap to the Future	**3,935**	3,192
Strategic investment	**2,268**	2,833
Next Generation Interconnection System	**1,476**	6,736
Other	**181**	91
PBS KIDS next generation media initiative	**-**	1,731
Investment returns	**(19,405)**	(30,008)
	$ 162,561	$ 154,103

10. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes as of June 30, 2010 and 2009 (in thousands):

	2010	2009
Programming	**$ 64,800**	$ 22,122
Interconnection and technical services	**60,302**	70,688
Grants	**5,665**	3,544
	$ 130,767	$ 96,354

11. Net Assets Released from Restrictions

Net assets were released from donor restrictions during the years ended June 30, 2010 and 2009 as follows (in thousands):

	2010	2009
Programming	**$ 32,672**	$ 42,069
Grants	**18,187**	15,095
Interconnection and technical services	**12,304**	18,000
	$ 63,163	$ 75,164

12. 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. Imputed value of donated broadcast rights was $192.1 million and $228.6 million for the years ended June 30, 2010 and 2009, respectively.

13. Retirement Plans

Retirement benefits are provided for all eligible employees under a contributory 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 $2.3 million and $2.6 million in 2010 and 2009, respectively.

14. Commitments

Operating Leases

The Company is obligated under various non-cancelable operating leases for office space, satellite transponders, automobiles, storage, and technical facilities in approximate annual amounts, excluding renewal options available after 2010, as follows (in thousands):

Years ending June 30,	
2011	$ 9,797
2012	10,038
2013	10,131
2014	10,227
2015	10,324
Thereafter	35,977
	$ 86,494

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 $4.5 million and $4.4 million in 2010 and 2009, 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 $76.5 million for programs that have not yet been made available for broadcast. These commitments will be funded primarily from member program assessments and contributions from the Corporation for Public Broadcasting.

15. 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.

16. 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. Investments in others include investments in guaranteed contracts and its fair value is determined based on the terms of the contracts.

The following table sets forth the Company's financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2010:

Description	**Level 1**	**Level 2**	**Level 3**	**Balance as of June 30, 2010**
Cash	$ 13,362	$ -	$ -	$ 13,362
U.S. bond	53,826	-	-	53,826
U.S. equities	22,956	-	-	22,956
Commercial paper	28,560	-	-	28,560
Money market	1,071	-	-	1,071
International bond	1,701	-	-	1,701
International equity	47,507	-	-	47,507
Managed futures fund	-	345	-	345
Fund of funds	-	-	24,373	24,373
Interest rate swap	-	(1,183)	-	(1,183)
	$ 168,983	$ (838)	$ 24,373	$ 192,518

The following table sets forth the Company's financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2009:

Description	Level 1	Level 2	Level 3	Balance as of June 30, 2009
Cash	$ 23,339	$ -	$ -	$ 23,339
U.S. bond	36,564	-	-	36,564
U.S. equity	29,514	-	-	29,514
Commercial paper	6,805	-	-	6,805
Money market	3,494	-	-	3,494
International bond	1,770	-	-	1,770
International equity	32,227	-	-	32,227
Managed futures fund	-	353	-	353
Fund of funds	-	-	28,671	28,671
Interest rate swap	-	(770)	-	(770)
	$ 133,713	$ (417)	$ 28,671	$ 161,967

The following table summarizes the change in the fair values for Level 3 items for the years ended June 30, 2010 and 2009:

	2010 Fund of Funds	2009 Fund of Funds
Balance, beginning of year	**$ 28,671**	$ 45,289
Total realized and unrealized losses	**(841)**	(10,274)
Redemption of interests	**(3,457)**	(6,344)
Balance, end of year	**$ 24,373**	$ 28,671

As of June 30, 2010, the $841,000 of unrealized losses described in the table above were still held by the Company and classified as Level 3 assets.

The balance of the Company's financial assets and liabilities as of June 30, 2010 and 2009 are classified in the consolidating statements of financial position as follows:

	2010	2009
Cash	**$ 12,977**	$ 22,905
Restricted cash	**385**	434
Cash – total	**13,362**	23,339
Investments – current	**56,011**	21,308
Investments – noncurrent	**124,328**	118,090
Investments – total	**180,339**	139,398
Bonds payable	**(19,500)**	(19,500)
Other liabilities	**(1,183)**	(770)
Liabilities – total	**(20,683)**	(20,270)
	$ 173,018	$ 142,467

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 is based on the net asset value reported by the fund as of the measurement date. The managed futures fund engages in the speculative trading of futures contracts, forward currency contracts, and options on forward currency contracts. The Company can redeem/transfer its interest in the units of the managed futures fund at the end of each month by giving 15 days' advanced notice of its intent to transfer.

In accordance with ASU 2009-12, the Company expanded its disclosures to include additional information about assets for which fair value is estimated using the net asset value per share, or its equivalent, and for which fair value is not readily determinable as of June 30, 2010. For the Company, such assets consist of a fund of funds. As of June 30, 2010, the fair value of the fund was $24.4 million. The fund's governing documents provide for redemptions of interests with 60 days written notice, after a one-year lock-up period from the date of initial purchase. During 2010, 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 redemption is expected to be achieved by 2016. The Company has no unfunded commitments associated with this investment.

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 Notes 7 and 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 or receive to settle the interest rate swap at the reporting date.

17. Subsequent Events

The Company evaluated subsequent events through December 22, 2010 which is the date the financial statements were available to be issued. No subsequent events were noted that required adjustment to the financial statements.