

Public Broadcasting Service and Subsidiary

Consolidated Financial Statements

June 30, 2004 and 2003

(with Independent Auditors' Report Thereon)

Report of Independent Auditors

The Board of Directors
Public Broadcasting Service:

In our opinion, the accompanying consolidated statements of financial position and the related consolidated statements of activities and of cash flows present fairly, in all material respects, the consolidated financial position of Public Broadcasting Service and Subsidiary (PBS) at June 30, 2004 and 2003 and the consolidated 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. These consolidated financial statements are the responsibility of PBS's management; our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

September 21, 2004

Public Broadcasting Service and Subsidiary
Consolidated Statements of Financial Position
June 30, 2004 and 2003

<i>(in thousands)</i>	<u>2004</u>	<u>2003</u>
Assets		
Current assets:		
Cash	\$ 2,721	\$ 2,775
Investments (Note 3)	113,245	103,200
Accounts receivable, net (Note 1)	23,258	33,109
Inventory	1,219	944
Prepaid satellite lease - current portion (Note 4)	7,531	7,531
Prepaid expenses (Note 1)	4,369	7,988
Total current assets	<u>152,343</u>	<u>155,547</u>
Property and equipment:		
Land and building	2,505	2,505
Satellite transponder	6,712	6,712
Broadcasting equipment	55,846	55,863
Furniture and computer equipment	39,913	33,489
Leasehold improvements	7,371	7,345
	<u>112,347</u>	<u>105,914</u>
Less accumulated depreciation and amortization	<u>(89,771)</u>	<u>(83,024)</u>
Property and equipment, net	<u>22,576</u>	<u>22,890</u>
Unamortized broadcast rights, including advances to producers	66,073	72,509
Prepaid satellite lease (Note 4)	9,415	16,946
Accounts receivable (Note 1)	18,122	17,832
Other assets	3,894	555
	<u>\$ 272,423</u>	<u>\$ 286,279</u>

Continued

The accompanying notes are an integral part of these consolidated financial statements.

Public Broadcasting Service and Subsidiary
Consolidated Statements of Financial Position
June 30, 2004 and 2003

<i>(in thousands)</i>	<u>2004</u>	<u>2003</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 52,985	\$ 55,436
Cable and license fees payable	17,494	19,573
Note payable - current portion (Note 5)	-	1,000
Deferred revenue:		
Programming funds	20,419	16,052
Other	10,340	7,312
Total deferred revenue	<u>30,759</u>	<u>23,364</u>
Total current liabilities	101,238	99,373
Deferred revenue	6,053	-
Deferred lease obligations (Note 11)	270	716
Other liabilities	45	45
Total liabilities	<u>107,606</u>	<u>100,134</u>
Minority interest (Note 1)	<u>1,811</u>	<u>1,677</u>
Commitments and contingencies (Notes 5, 11, and 12)		
Net assets:		
Unrestricted:		
Designated (Note 6)	124,092	150,093
Undesignated (Note 1)	25,119	20,162
Temporarily restricted (Note 7)	<u>13,795</u>	<u>14,213</u>
Total net assets	<u>163,006</u>	<u>184,468</u>
	<u>\$ 272,423</u>	<u>\$ 286,279</u>

The accompanying notes are an integral part of these consolidated financial statements.

Public Broadcasting Service and Subsidiary
Consolidated Statements of Activities
Years Ended June 30, 2004 and 2003

(in thousands)	2004				2003			
	Unrestricted		Temporarily Restricted	Total	Unrestricted		Temporarily Restricted	Total
	Designated	Undesignated			Designated	Undesignated		
Changes in net assets								
Revenue:								
Imputed value of donated broadcast rights (Note 9)	\$ 184,297	\$ -	\$ -	\$ 184,297	\$ 179,374	\$ -	\$ -	\$ 179,374
Member program assessments	111,712	16,056	-	127,768	106,463	19,815	-	126,278
Member Service Assessment	1,636	26,107	-	27,743	7,063	19,797	-	26,860
Educational grants	-	-	80,324	80,324	-	-	62,998	62,998
Video	-	34,106	-	34,106	-	37,423	-	37,423
Royalties and sponsorships	-	10,234	-	10,234	-	14,540	-	14,540
Cable and license fees	5,772	5,529	-	11,301	-	6,622	-	6,622
Adult Learning Service program fees	-	7,086	-	7,086	-	9,073	-	9,073
Satellite services	-	6,956	-	6,956	-	5,678	-	5,678
Investment returns (Note 3)	16,037	552	125	16,714	3,638	782	38	4,458
Other	4,291	6,422	85	10,798	15,641	9,486	4	25,131
Net assets released from restrictions (Note 8)	24,840	56,112	(80,952)	-	21,432	55,058	(76,490)	-
Total revenue	<u>348,585</u>	<u>169,160</u>	<u>(418)</u>	<u>517,327</u>	<u>333,611</u>	<u>178,274</u>	<u>(13,450)</u>	<u>498,435</u>
Expenses:								
Programming (Note 9)	326,128	30,472	-	356,600	304,104	30,903	-	335,007
Promotion	29,936	3,620	-	33,556	24,293	3,642	-	27,935
Member services	2,498	6,106	-	8,604	5,871	7,820	-	13,691
Satellite interconnection and technical services (Note 4)	16,331	31,809	-	48,140	15,539	35,263	-	50,802
Educational grants	-	28,434	-	28,434	-	27,892	-	27,892
Video	230	28,215	-	28,445	336	29,212	-	29,548
Sponsorships	34	3,078	-	3,112	21	3,892	-	3,913
Cable and license fees	2,098	5,235	-	7,333	10	6,622	-	6,632
Adult Learning Service	303	5,407	-	5,710	159	6,839	-	6,998
Management and general	2,107	16,748	-	18,855	2,530	16,347	-	18,877
Total expenses	<u>379,665</u>	<u>159,124</u>	<u>-</u>	<u>538,789</u>	<u>352,863</u>	<u>168,432</u>	<u>-</u>	<u>521,295</u>
Changes in net assets before net asset transfers	(31,080)	10,036	(418)	(21,462)	(19,252)	9,842	(13,450)	(22,860)
Net asset transfers	5,079	(5,079)	-	-	3,990	(3,990)	-	-
Changes in net assets	(26,001)	4,957	(418)	(21,462)	(15,262)	5,852	(13,450)	(22,860)
Net assets at beginning of year	150,093	20,162	14,213	184,468	165,355	5,788	27,663	198,806
Sale of stock of subsidiary (Note 1)	-	-	-	-	-	8,522	-	8,522
Net assets at end of year	<u>\$ 124,092</u>	<u>\$ 25,119</u>	<u>\$ 13,795</u>	<u>\$ 163,006</u>	<u>\$ 150,093</u>	<u>\$ 20,162</u>	<u>\$ 14,213</u>	<u>\$ 184,468</u>

The accompanying notes are an integral part of these consolidated financial statements.

Public Broadcasting Service and Subsidiary
Consolidated Statements of Cash Flows
Years Ended June 30, 2004 and 2003

<i>(in thousands)</i>	<u>2004</u>	<u>2003</u>
Cash flows from operating activities		
Changes in net assets	\$ (21,462)	\$ (22,860)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization on equipment and leasehold improvements	9,847	9,599
Loss on disposal of equipment	797	-
Bad debt expense	46	632
Reserve against producer advances	940	839
Earnings applicable to minority interest	134	145
Unrealized gains	(5,098)	(2,539)
Decrease (increase) in assets:		
Accounts receivable	9,514	9,879
Inventory	(275)	404
Prepaid expenses and other assets	(660)	4,763
Unamortized broadcast rights and advances to producers	6,436	11,980
Prepaid satellite lease	7,531	7,531
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(2,451)	(304)
Cable and license fees payable	(2,079)	2,450
Deferred revenue and other liabilities	13,448	4,455
Net cash provided by operating activities	<u>16,668</u>	<u>26,974</u>
Cash flows from investing activities		
Purchases of investments	(397,290)	(700,930)
Proceeds from sale of investments	392,344	676,903
Capital expenditures	(10,330)	(10,389)
Net cash used in investing activities	<u>(15,276)</u>	<u>(34,416)</u>
Cash flows from financing activities		
Net change of deferred lease obligations	(446)	(230)
Repayment of note payable	(1,000)	(1,112)
Proceeds from sale of stock of subsidiary	-	10,000
Net cash (used in) provided by financing activities	<u>(1,446)</u>	<u>8,658</u>
Net (decrease) increase in cash	(54)	1,216
Cash, beginning of year	<u>2,775</u>	<u>1,559</u>
Cash, end of year	<u>\$ 2,721</u>	<u>\$ 2,775</u>
Supplemental disclosure		
Cash paid for interest	<u>\$ 32</u>	<u>\$ 45</u>
Cash paid for taxes	<u>\$ 3,103</u>	<u>\$ 870</u>

The accompanying notes are an integral part of these consolidated financial statements.

Public Broadcasting Service and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2004 and 2003

1. Summary of Significant Accounting Policies

General

The Public Broadcasting Service (PBS), incorporated in 1969, is a private, non-profit media enterprise and a national membership organization for the nation's 349 public television stations. PBS uses the power of noncommercial television, the internet, and other media to enrich the lives of all Americans through quality programs and services that inform, inspire, and educate. Available to 99 percent of American homes with televisions and to an increasing number of digital multimedia households, PBS serves nearly 83 million people each week.

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 interest totaling 11.42 percent is held by one of NDI's customers and three PBS member stations and is reflected as minority interest in the accompanying consolidated statements of financial position. In August 2002, NDI sold a 10 percent minority interest to one of its customers for \$10 million. PBS has accounted for the sale of this minority interest as an increase in undesignated net assets in the accompanying consolidated financial statements.

Principles of Consolidation

The consolidated financial statements include the accounts of PBS, its wholly-owned subsidiary, PBSE, and PBSE's majority-owned subsidiary, NDI. All intercompany balances and transactions have been eliminated in consolidation.

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 of PBS and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met either by actions of PBS and/or the passage of time.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that must be maintained permanently by PBS. As of June 30, 2004 and 2003, PBS did not have any permanently restricted net assets.

Revenues and gains and losses on investments are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Expirations 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 reclassifications between the applicable classes of net assets.

Investments

Investments are recorded at fair value based on quoted market prices.

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Public Broadcasting Service and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2004 and 2003

Fair Value of Financial Instruments

Fair value of all other financial instruments approximates their reported value due to the immediate or short-term maturity of these financial instruments.

Accounts Receivable

Accounts receivable includes amounts due from member stations for programming and other station-provided services. Additionally, PBS has entered into agreements with certain direct broadcast satellite (DBS) providers whereby amounts due to PBS are remitted by the DBS providers to the United States Copyright Office. At June 30, 2004 and 2003, approximately \$14.5 million of accounts receivables relating to amounts due from DBS providers are held by the United States Copyright Office. PBS 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 \$1.7 million and \$1.9 million as of June 30, 2004 and 2003, respectively.

Inventory

Inventory is stated at the lower of cost or market and consists primarily of videocassettes and DVD programming for both the consumer and educational markets. Cost is determined using the standard cost method, where a predetermined or standard cost is used for charging materials, resource and inventory valuation. Any deviation in actual costs from pre-determined standards is recorded as a variance. Goods are relieved from inventory utilizing the first-in, first-out method. Obsolete or unsaleable inventory is reflected at its estimated net realizable value.

Prepaid Expenses

Prepaid expenses consist mainly of prepaid taxes and payments for the benefit of the stations.

Property and Equipment

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

Building	45 years
Satellite transponder	12 years
Broadcasting equipment	4-8 years
Furniture and computer equipment	3-8 years
Leasehold improvements	Term of lease

Contributed property is recorded at estimated fair value at the date of contribution.

Revenue and Expense Recognition

Member Program Assessments – PBS member stations pay an annual assessment for access to, and the related broadcast rights of, PBS's annual National Program Service, consisting of approximately 2,100 hours of programming and related promotion. The PBS National Program Service member station assessment is recognized in the period in which the related services are provided.

Revenue from other programming funds is recognized to the extent of expenses incurred. Expenses incurred to acquire programming are accounted for in the manner described below for amortization of broadcast rights. Funds received in excess of expenses incurred are reflected as deferred revenue.

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Public Broadcasting Service and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2004 and 2003

Amortization of Broadcast Rights – PBS capitalizes the cost of purchased broadcast rights (obtained principally through the National Program Service), charging such rights to expenses when the program is made available to member stations for initial broadcast.

Member Service Assessment – Member Service Assessment revenue is recognized in the period in which the related services are provided.

Contracts and Grants – Unconditional contracts and grants, classified as contributions, are recognized as unrestricted or temporarily restricted net assets, in accordance with the donor's restrictions, in the period received or when the promise is made, if earlier.

Conditional promises are recorded as revenue when the conditions have been met. As of June 30, 2004, PBS has outstanding conditional promises of approximately \$22.6 million.

Revenue for grants and contracts classified as exchange transactions are recognized in the year funds are received, to the extent of expenses incurred. When cumulative expenses incurred in accordance with the contract and grant provisions are in excess of cumulative receipts, the excess is accrued and reflected as an account receivable with a corresponding credit to revenue, to the extent that total revenue does not exceed the grant award or contract amount. When cumulative receipts are in excess of cumulative expenses, the excess is reflected as deferred revenue.

Video – Revenue from sales of videos and DVDs are recognized in the period in which the videos and DVDs are shipped to the customer. Royalties from sales of videos and DVDs are recorded in the period they are earned.

Adult Learning Service – Revenue from the Adult Learning Service is recognized in the period in which the related services are provided.

Royalties and Sponsorships – represent revenue recognized from sales of PBS-associated products in the period the sale took place, as well as, revenue recognized from underwriting funds received from corporate sponsors in the period the credit is given.

Cable and license fees – is pass-through revenue received from the cable and satellite providers for the carriage of public television programming that is distributed to public broadcasting stations and producers.

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 expenses related to PBS's videocassettes and DVD business. Deferred advertising costs are amortized over a five-month period. At June 30, 2004 and 2003, approximately \$0.3 and \$0.4 million, 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 approximately \$3.5 million in 2004 and \$3.2 million in 2003.

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Public Broadcasting Service and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2004 and 2003

Income Taxes

PBS is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code except for unrelated business income, if any. PBS's wholly-owned subsidiary, PBSE, is subject to tax.

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 income in the period that includes the enactment date.

Allocation of Costs

The costs of providing programs and support services have been summarized in the consolidated statements of activities. Accordingly, 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 amounts included in the 2003 consolidated financial statements have been reclassified to conform to the 2004 presentation.

2. Description of Functional Activities

The following is a description of PBS's functional activities:

Programming – represents approximately 3,000 hours of broadcast services provided by PBS to its 169 member public television licensees that is dedicated to inform, inspire, engage, and educate. This expense category includes staff and related costs connected with administering programming, including content oversight, program scheduling and packaging.

Promotion – represents all the institutional and program promotion and press efforts with the goal of increasing awareness of the value of public television among all segments of the American people. 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 coordination of public television's educational message and positioning.

Member services – represents other services provided on behalf of members, including PBS Interactive, development, and copyright administration.

Satellite interconnection and technical services – represents the scheduling and logging of all satellite feeds; media center handling, technical evaluation and other pre-transmission processing of all program videotapes; and approximately 21,800 hours per year of program origination transmission

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Public Broadcasting Service and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2004 and 2003

including operational support for news and other live event coverage. This expense category also includes other technical research and planning, management of excess satellite transponder capacity, and the lease and acquisition of satellite capacity. The expenses related to PBSE for data delivery services are also represented here.

Video – represents videocassette, DVD, and program-related product expense (teacher and student guides, indexed multimedia products, books and software) to schools, colleges, universities, libraries, businesses, government agencies and consumers.

Sponsorships – represent costs of securing underwriting funds received from corporate sponsors and the related payments to program producers. This category also includes expenses derived from sales of PBS-associated products.

Cable and license fees – represents fees distributed to public broadcasting stations and producers from pass-through revenue received from the cable and satellite providers for the carriage of public television programming.

Adult Learning Service – represents the cost of providing college telecourses, live interactive videoconferences and resource programs, ranging in topics from literacy to introductory language courses to management training, to participating colleges and universities.

Educational grants – represents grant activity during the fiscal year primarily related to grants received from the Department of Education.

Management and general – consists of management and general administrative costs, including finance, legal, human resources and information technology associated with the operations of PBS.

3. Investments

PBS's investments consist of the following balances at June 30, 2004 and 2003 (in thousands):

	2004		2003	
	Cost	Fair Value	Cost	Fair Value
Money market funds	\$ 1,157	\$ 1,157	\$ 1,867	\$ 1,867
Commercial paper	12,541	12,541	17,567	17,567
Total cash and cash equivalents	13,698	13,698	19,434	19,434
U.S. bond - fixed income	25,368	24,438	32,967	32,236
International bond - fixed income	5,000	5,314	-	-
International equity funds	19,790	22,534	14,924	13,649
U.S. equities	43,365	47,261	34,949	37,881
	<u>\$ 107,221</u>	<u>\$ 113,245</u>	<u>\$ 102,274</u>	<u>\$ 103,200</u>

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Public Broadcasting Service and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2004 and 2003

Investment returns for the years ended June 30, 2004 and 2003 consist of the following (in thousands):

	<u>2004</u>	<u>2003</u>
Interest and dividend income	\$ 2,898	\$ 3,374
Realized losses (gains) on sales of investments	8,718	(1,455)
Unrealized gains due to market appreciation	5,098	2,539
	<u>\$ 16,714</u>	<u>\$ 4,458</u>

4. Prepaid Satellite Lease

In October 1997, PBS began service with GE Americom Communications, Inc. (GE Americom) for transponder capacity on its GE-3 and GE-1 satellites through September 2006. PBS prepaid its obligations under the contract with GE Americom. The arrangement is accounted for as a prepaid satellite lease in the accompanying consolidated statements of financial position and is amortized on a straight-line basis over the life of the lease and included in satellite interconnection and technical services in the accompanying statements of activities.

5. Debt

Note Payable

In January 2000, PBS obtained a variable-rate bank note in the amount of \$8.4 million. The note was secured by certain PBS investments. As of June 30, 2003, total debt outstanding amounted to \$1.0 million. The note payable was fully paid in 2004 and no debt remains outstanding as of June 30, 2004. Interest expense on the note amounted to \$4,000 and \$26,000 for the years ended June 30, 2004 and 2003, respectively. The Company paid interest at LIBOR plus 0.25 percent.

Line of Credit

In August 2002, PBS obtained a secured, variable-rate bank line of credit with an interest rate of LIBOR plus 1.2 percent in the amount of \$5.0 million. In October 2003, PBS increased its line of credit from \$5.0 million to \$15.0 million and the interest rate was reduced to LIBOR plus 1.0 percent. The line of credit is secured by certain PBS investments and will expire on October 31, 2004. Accrued interest on the line of credit is payable monthly with any principal and accrued interest outstanding currently due on October 31, 2004. No amounts were outstanding at June 30, 2004 and 2003.

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Public Broadcasting Service and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2004 and 2003

6. Designated Net Assets

Designated net assets at June 30, 2004 and 2003 consist of the following (in thousands):

	<u>2004</u>	<u>2003</u>
National Program Service	\$ 75,663	\$ 96,874
Satellite Replacement	20,038	31,225
Property fund	11,539	18,501
Digital environment initiatives	1,452	2,296
Digital content initiatives	3,667	434
Strategic investment fund	2,532	2,991
Investment returns	7,539	(3,222)
Other	1,662	994
	<u>\$ 124,092</u>	<u>\$ 150,093</u>

The National Program Service net asset balance represents funds which have been committed for national programming that will be made available for broadcast in future years.

The Satellite Replacement net asset balance represents funds expended on equipment and the satellite lease that will be depleted as the equipment and lease are depreciated and amortized.

7. Temporarily Restricted Net Assets

Temporarily restricted net assets as of June 30, 2004 and 2003 are available for the following purposes (in thousands):

	<u>2004</u>	<u>2003</u>
Programming	\$ 8,774	\$ 7,590
Member services	187	21
Satellite interconnection and technical services	3,665	6,602
Educational grants	1,169	-
	<u>\$ 13,795</u>	<u>\$ 14,213</u>

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Public Broadcasting Service and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2004 and 2003

8. Reclassification of Net Assets

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes specified by the donor during the years ended June 30, 2004 and 2003 as follows (in thousands):

	<u>2004</u>	<u>2003</u>
Programming	\$ 35,146	\$ 27,630
Member services	152	264
Satellite interconnection and technical services	16,592	19,551
Educational grants	29,062	29,045
	<u>\$ 80,952</u>	<u>\$ 76,490</u>

9. Imputed Value of Donated Broadcast Rights

In administering the PBS 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 underwritten funds provided for a particular production is recorded in the accompanying consolidated statements of activities as the imputed value of the donated broadcast rights. Imputed value of donated broadcast rights are recognized as revenue in the year the initial program in production is received by PBS and made available to member public television stations for broadcast. An equal amount of expense is recognized as programming expense in the same year that the corresponding revenue is recorded. Imputed value of donated broadcast rights amounted to approximately \$184.3 million and \$179.4 million for the years ended June 30, 2004 and 2003, respectively.

10. Retirement Plans

Under a contributory retirement plan providing for the purchase of annuity contracts with Teachers Insurance and Annuity Association–College Retirement Equities Fund, retirement benefits are provided for all eligible employees. Employees are eligible to participate in the plan after one year of service. All plan participants are fully vested in the contributions made by PBS. In addition, PBS had a nonqualified supplemental retirement plan for a certain member of management. Pension expense related to the plans amounted to approximately \$2.2 million in 2004 and \$2.3 million in 2003.

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Public Broadcasting Service and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2004 and 2003

11. Commitments

Leases

PBS is obligated under various noncancelable operating leases for office space, automobiles, and storage and technical facilities in approximate annual amounts, excluding renewal options available after 2004, as follows (in thousands):

2005	\$ 3,140
2006	2,096
2007	<u>6</u>
	<u>\$ 5,242</u>

Rent expense amounted to approximately \$4.0 million and \$3.9 million in 2004 and 2003, respectively.

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

Programming

PBS has current unpaid program commitments of \$37.3 million that have not yet been made available for broadcast. These commitments will be funded primarily from the designated National Program Service net assets.

PBS has made future-year program commitments to producers of approximately \$42.2 million. PBS's member stations and the Corporation for Public Broadcasting are obligated to fund these program commitments.

12. Contingencies

PBS is a party to various claims, legal actions and complaints arising from its distribution of programming to member stations and from its video marketing and other operations in the ordinary course of business. PBS 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 PBS as a result of its distribution of programs to stations. Management believes, based upon advice of counsel, that the disposition of these matters will not have a material adverse effect on the consolidated financial position of PBS.

PBS 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 generally is 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.