KQED INC.

SEPTEMBER 30, 2011

INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

KQED Inc.

Independent Auditors' Report
and Financial Statements

HOOD & STRONG LLP

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

THE BOARD OF DIRECTORS
KQED INC.
San Francisco, California

We have audited the accompanying statements of financial position of **KQED INC., (the Corporation)** as of September 30, 2011 and the related statements of activities and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Corporation’s 2010 financial statements (formerly Northern California Public Broadcasting, Inc.), and in our report dated December 13, 2010, we expressed an unqualified opinion on those financial statements.

We conducted our audit 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of September 30, 2011, and the results of its activities and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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San Francisco, California
December 12, 2011

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KQED Inc.

Statement of Financial Position

September 30, 2011 (with comparative totals for 2010)	2011	2010
Assets		
Current Assets:		
Cash and cash equivalents	$ 13,107,924	$ 13,259,874
Restricted cash (see Note 1)	1,609,104	488,557
Accounts and pledges receivable, less allowance for doubtful accounts of $152,052 in 2011 and $171,842 in 2010, respectively	2,968,065	3,101,582
Grants receivable	2,374,786	2,340,452
Short term investments (see Note 2)	749,848	
Other current assets	922,454	782,688
Total current assets	21,732,181	19,973,153
Grants Receivable, Long-Term (see Note 1)		25,000
Charitable Gift Annuities and Trusts	5,079,346	5,128,949
Long Term Investments (see Note 2)	34,736,949	33,941,615
Bond Financing Costs	236,367	264,529
Intangible Assets, net (see Note 5)	2,686,566	2,772,361
Property and Equipment, net (see Note 4)	36,912,433	37,302,325
Total assets	$ 101,383,842	$ 99,407,932
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable and accrued expenses	$ 6,269,225	$ 6,187,249
Accrued broadcast rights	1,130,004	1,196,518
Current portion of bonds payable (see Note 7)	390,000	390,000
Deferred production and underwriting revenues	852,025	498,330
Total current liabilities	8,641,254	8,272,097
Long Term Liabilities	2,304,976	2,171,187
Bonds Payable (see Note 7)	2,560,000	2,950,000
Total liabilities	13,506,230	13,393,284
Net Assets:		
Unrestricted	64,125,675	61,761,622
Temporarily restricted (see Note 8)	8,243,750	8,938,037
Permanently restricted	15,508,187	15,314,989
Total net assets	87,877,612	86,014,648
Total liabilities and net assets	$ 101,383,842	$ 99,407,932

The accompanying notes are an integral part of this statement.

KQED Inc.

Statement of Activities and Changes in Net Assets

Year Ended September 30, 2011 (with comparative totals for 2010)

	2011				2010
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Revenues, Support and Other Changes:					
Contributions and membership fees	$ 33,883,900			$ 33,883,900	$ 31,274,990
Underwriting and general grants	11,967,319			11,967,319	9,705,643
Project grants		$ 2,495,499		2,495,499	1,873,000
Community service grants	5,000,161			5,000,161	5,517,187
Bequests and trusts	1,378,088			1,378,088	1,391,157
Investment income transferred from Endowments (see Note 2)	465,197	996,264		1,461,461	1,471,340
Other	3,454,312	281,932		3,736,244	3,642,576
Net assets released from restrictions	3,842,207	(3,842,207)		-	-
Subtotal	59,991,184	(68,512)		59,922,672	54,875,893
Trade and In-kind donations	2,644,718			2,644,718	1,979,442
Total revenues, support and other changes	62,635,902	(68,512)		62,567,390	56,855,335
Expenses:					
Program services:					
Television:					
Programming and production	14,257,812			14,257,812	13,425,179
Broadcast services	5,244,619			5,244,619	5,082,865
Radio:					
Programming and production	8,609,032			8,609,032	7,382,915
Broadcast services	1,935,229			1,935,229	1,790,285
Education network	962,644			962,644	1,338,077
Program promotion	2,425,371			2,425,371	2,530,444
Interactive	2,382,384			2,382,384	2,085,866
Total program services	35,817,091			35,817,091	33,635,631
Support services:					
Marketing and development	13,886,950			13,886,950	12,617,104
General and administrative	7,039,136			7,039,136	6,661,793
Total support services	20,926,086			20,926,086	19,278,897
Subtotal	56,743,177			56,743,177	52,914,528
Trade and In-kind expenses	2,709,247			2,709,247	1,879,627
Total expenses	59,452,424			59,452,424	54,794,155
Increase (Decrease) in Net Assets Before Endowment, Campaign for the Future and Opportunity and Innovation Fund	3,183,478	(68,512)		3,114,966	2,061,180
Permanent Endowment, Charitable Gift Annuities and Trust Contributions		114,181	$ 263,500	377,681	116,513
Change in Value - Charitable Gift Annuities and Trusts		(143,075)	(70,302)	(213,377)	122,037
Net Investment (Loss) Income on Endowments (see Note 2)	(819,425)	(1,358,799)		(2,178,224)	1,844,009
Campaign for the Future - Production Expenses					(479,299)
Opportunity and Innovation Fund - Contributions		761,918		761,918	-
Increase (Decrease) in Net Assets	2,364,053	(694,287)	193,198	1,862,964	3,664,440
Net Assets, beginning of year	61,761,622	8,938,037	15,314,989	86,014,648	82,350,208
Net Assets, end of year	$ 64,125,675	$ 8,243,750	$ 15,508,187	$ 87,877,612	$ 86,014,648

The accompanying notes are an integral part of this statement.

KQED Inc.

Statement of Cash Flows

Year Ended September 30, 2011 (with comparative totals for 2010)	2011	2010
Operating Activities:		
Increase in net assets	$ 1,862,964	$ 3,664,440
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	3,550,913	3,648,451
Amortization of bond financing costs	28,162	28,161
Bad debt expense and cancelled contracts	228,374	138,354
Net realized and unrealized loss (gain) on investments	1,554,238	(2,589,794)
Loss on disposal of equipment	-	1,678
Permanent endowment contribution	(263,500)	(3,500)
Net effect of changes in:		
Accounts and pledges receivable	(94,857)	938,317
Grants receivable	(9,334)	157,015
Charitable gift annuities and trusts	112,997	(143,629)
Other current assets	(139,767)	(15,239)
Accounts payable, accrued expenses and other liabilities	726,918	259,822
Deferred production and underwriting revenues	353,695	22,356
Net cash provided by operating activities	7,910,803	6,106,432
Investing Activities:		
Purchases of investments	(4,956,105)	(2,823,951)
Proceeds from sales of investments	1,793,292	1,595,767
Purchases of equipment	(3,652,893)	(2,543,395)
Net cash used by investing activities	(6,815,706)	(3,771,579)
Financing Activities:		
Payment on bonds	(390,000)	(390,000)
Permanent endowment contribution	263,500	3,500
Net cash provided (used) by financing activities	(126,500)	(386,500)
Net Increase in Cash, Cash Equivalents and Restricted Cash	968,597	1,948,353
Cash, Cash Equivalents and Restricted Cash:		
Beginning of year	13,748,431	11,800,078
End of year	$ 14,717,028	$ 13,748,431
Supplemental Data:		
Interest paid	$ 49,165	$ 47,340
Non-Cash Transactions:		
Equipment purchases included in payables at year end	$ 721,522	$ 1,299,190

The accompanying notes are an integral part of this statement.

Note 1 - Summary of Significant Accounting Policies:

a. Organization

KQED Inc. (the Corporation) is a nonprofit corporation which operates three noncommercial public television stations ("KQED", "KQEH", "KQET") in San Francisco, San Jose and Monterey, and two noncommercial public radio stations ("KQED-FM") in San Francisco and ("KQEI-FM") in North Highlands. The Corporation also distributes its content and services via KQED.org and KQED Education as well as other digital and mobile media technology. On December 20, 2010, the Corporation changed its name from Northern California Public Broadcasting, Inc. to KQED Inc. Effective July 1, 2011, KTEH changed its call sign to KQEH and was acknowledged by the FCC.

The Corporation serves the people of Northern California with a community-supported alternative to commercial media. KQED's television, radio, digital media and educational services seek to change lives for the better and help individuals and communities achieve their full potential. KQED provides citizens with the information they need to make informed decisions, convenes community dialogue, brings the arts to everyone, and engages audiences to share their stories. KQED content and services help students and teachers thrive in 21st century classrooms, and take people of all ages on journeys of exploration, exposing them to new people, places and ideas. KQED celebrates diversity, embraces innovation, values lifelong learning, and partners with those who share a commitment to public service.

b. Basis of Presentation

The Corporation's financial statements are presented on the accrual basis of accounting and have been presented showing unrestricted, temporarily restricted, and permanently restricted net assets and are prepared in accordance with accounting principles generally accepted in the United States of America.

c. Cash and Cash Equivalents

The Corporation considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents which include certain money market funds held as investments. Restricted cash includes funds restricted by various funders for specific projects and operating periods.

d. Accounts and Pledges Receivable

The Corporation's accounts and pledges receivable consist primarily of amounts due from members and advertising trades. The Corporation uses the allowance method to account for uncollectible receivables. The allowance for doubtful accounts is based on historical experience, present market conditions and an evaluation of the outstanding receivables at the end of the year. As of September 30, 2011 and 2010, pledges receivable were approximately $2,519,000 and $2,294,000, respectively.

e. Broadcast Rights

The Corporation purchases and capitalizes broadcast rights for certain programs from the Public Broadcasting Service and other sources. These costs are expensed over the period of expected telecasts or the term of the agreement, whichever is shorter.

f. Opportunity and Innovation Fund

The KQED Inc. Opportunity and Innovation Fund will provide the Corporation with the flexible working capital to respond to the quickly evolving opportunities of the digital media environment. The fund will enable the Corporation to start projects, conduct experiments, and begin initiatives in a timely way that is not currently possible and is critical to their ability to adapt, provide media with community impact and thereby remain relevant.

g. Property and Equipment

Property and equipment are stated at cost. Donated assets are recorded at the estimated fair value at the date of donation. Depreciation and amortization are computed using the straight-line method based upon estimated useful lives of the assets ranging from 3 to 55 years. The carrying amount of long-lived assets is evaluated periodically to determine if adjustments to the useful life of the undepreciated balance are warranted.

h. Investments and Endowments

Investments and endowments are carried at estimated fair value based on quoted market prices. Investments received through gifts and endowments are recorded at estimated fair market value at the date of donation. Unrealized gains and losses resulting from changes in fair value are recognized in the period in which such fluctuations occur. Income is recorded in accordance with donor stipulations.

i. Fair Value Measurements

The Corporation classifies its financial assets and liabilities measured at fair value on a recurring basis based on a fair value hierarchy with three levels of inputs. Level 1 values are based on unadjusted quoted prices in active markets for identical securities. Level 2 values are based on significant observable market inputs, such as quoted prices for similar securities and quoted prices in inactive markets. Level 3 values are based on significant unobservable inputs that reflect the Corporation's determination of assumptions that market participants might reasonably use in valuing the securities. The valuation levels are not necessarily an indication of the risk or liquidity associated with the assets and liabilities measured at fair value.

j. Grants Receivables, Long-Term

Grants receivables long term represents amounts committed by donors and not expected to be collected within one year after the statement of financial position date.

k. Charitable Gift Annuities and Trusts

Charitable gift annuities and trusts are established by gifts that require payments to be made to the donor or the donor's designee(s) from assets of the trust and which name the Corporation as the beneficiary of the assets remaining at the termination of the trust. Charitable gift annuities and trusts are recorded as contribution income at the fair value of the assets in the trust less an annuity reserve, computed using actuarial methods, for the present value of the estimated payouts under the agreement. The income is temporarily restricted during the life of the donor unless the donor has permanently restricted the use of the interest. An annual adjustment is made for the actuarial gain or loss on annuity obligations representing differences between assumed and actual experience as to earnings, payouts, and life expectancies used in the computation of the liability for distribution.

As of September 30, 2011 and 2010, future annuity payments due to beneficiaries of charitable gift annuities and trusts totaled approximately $1,950,000 and $1,836,000, respectively. This amount is included in long term liabilities on the accompanying Statement of Financial Position.

California Insurance Code (the Code) requires that organizations maintain a reserve fund adequate to meet the future payments under its outstanding charitable gift annuity contracts. In addition, the law requires that 50% of the reserve fund be invested in specified governmental fixed income investments. As of September 30, 2011, the Corporation had sufficient funds in its reserve fund to meet the California Insurance Code requirements and those funds were invested in accordance with the Code.

l. Bond Financing Costs

Bond financing costs represent costs incurred in connection with the issuance and refinancing of bonds payable in September 1996 and August 2003, which are being amortized on a straight-line basis over the life of the Series 1996 Bonds.

m. Temporarily Restricted Net Assets

Temporarily restricted net assets represent contributions that are limited in use by the Corporation in accordance with donor-imposed stipulations that either expire with the passage of time or can be fulfilled and removed by activities conducted by the Corporation pursuant to those stipulations.

n. Permanently Restricted Net Assets

Permanently restricted net assets represent contributions to be held as investments in perpetuity as directed by the original donor. The income from these funds is generally available for current use.

o. Revenue Recognition

Contributions are recognized as revenue when they are received or unconditionally pledged. Membership fees are recognized as unrestricted revenue when committed as they relate to current year's operations. Premium costs offered to members as thank-you gifts or appreciation are recorded as marketing and development expenses in the statement of activities and approximated $2,278,000 and $1,997,000 in the years ended September 30, 2011 and 2010, respectively, which includes the value of deminimus premium items.

The Corporation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restriction.

Contributions of services are recognized when received if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

p. In-Kind Contributions

In-kind contributions consist of donated professional and other services and donated goods. The estimated fair value of these donations approximated $0 and $934,000 for the year ended September 30, 2011, respectively, and $1,000 and $815,000 for the year ended September 30, 2010, respectively, and is reflected in the accompanying Statement of Activities and Changes in Net Assets. Donated personal services of volunteers are not reflected in the accompanying financial statements, because such services do not require the specialized skills stipulated under *FASB ASC 958-605 Accounting for Contributions Received and Contributions Made*. The estimated fair value of such donated volunteer services is based upon standard valuation rates and job classifications and amounted to approximately $128,000 and $170,000 for the years ended September 30, 2011 and 2010, respectively**.**

q. Nonmonetary Transactions

The Corporation has transactions involving the exchange of sponsorship rights for goods and services, including capital assets. These transactions are recorded based on the fair value of the goods and services received. For the years ended September 30, 2011 and 2010, sponsorship barter transactions resulted in the recognition of approximately $1,711,000 and $1,164,000, respectively, in revenues and approximately $1,777,000 and $1,064,000, respectively, in expenses in the accompanying Statement of Activities and Changes in Net Assets.

r. Income Taxes

The Corporation's principal activities are exempt from federal and state income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code and Section 23701(d) of the California Tax Code. The Corporation's current accounting policy is to evaluate uncertain tax positions. Accordingly, a loss contingency is recognized when it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss can be reasonably estimated. The amount recognized is subject to estimate and management judgment with respect to the likely outcome of each uncertain tax position. Management believes that there are no uncertain tax positions. With few exceptions, the Corporation is no longer subject to income tax examinations by federal or state authorities for years before 2007.

s. Functional Expense Allocations

Certain expenses, such as depreciation, contract services and utilities are allocated among program services and supporting services based primarily on equipment usage, space occupied, headcount and on estimates made by the Corporation's management.

t. Concentrations of Credit Risk

Financial instruments which potentially subject the Corporation to credit risk include cash, cash equivalents, restricted cash, investments, and accounts, pledges, grants and contributions receivables. The Corporation attempts to limit its credit risk associated with cash equivalents and marketable securities by utilizing outside investment managers to place the Corporation's investments with highly rated corporate and financial institutions. The Corporation's receivables result primarily from donor pledges, membership drives and underwriting sponsorships. These receivables are from donors, members and sponsors located primarily in the San Francisco Bay Area. The Corporation routinely assesses the financial strength of these various parties. Management does not believe significant risk exists in connection with the Corporation's concentrations of credit at September 30, 2011.

u. Collective Bargaining Agreements

The Corporation has three collective bargaining union agreements, NABET, AFTRA-TV and AFTRA-KQED FM, with approximately 40% of its employees being covered by such agreements. The agreements expire in October 2012, December 2013, and September 2011, respectively. The AFTRA-KQED FM new collective bargaining union agreement is currently under negotiation.

v. Use of Estimates

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. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

w. Comparative Financial Information

The financial statements include certain summarized comparative information as of and for the year ended September 30, 2010 presented in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Corporation's financial statements for the year ended September 30, 2010, from which the summarized financial information was derived. Certain reclassifications have been made to the 2010 amounts to conform to the 2011 presentation.

x. Recent Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board (FASB) issued additional disclosure requirements for fair value measurements. Under this guidance, the fair value hierarchy disclosures are to be further disaggregated by classes (subsets of the line items in the financial statements) and additional disclosures made about transfers between levels 1 and 2. These disclosures are effective for the fiscal year ended in 2011. The Corporation has implemented the update beginning October 1, 2010. Additional disclosures about level 3 measurements will be required for 2012.

In May 2011, the FASB issued amendments to existing guidance for fair value measurements. Under this guidance, the amendments change the wording used to describe many of the requirements for measuring fair value and for disclosing information about fair value measurements. The amendments explain how to measure fair value and do not require additional fair value measurements and are not intended to establish valuation standards or affect valuation practices. The disclosure is effective for years beginning after December 15, 2011. The Corporation does not believe that the adoption of this update will have a material impact on its financial statements.

y. Subsequent Events

The Corporation has evaluated subsequent events through the date these financial statements were issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.

Note 2 - Investments:

The Corporation's investments were composed of the following at September 30, 2011:

	Operating	Endowment	Board Designated	Total
Short-term investments:				
Certificates of Deposit	$ 749,848			$ 749,848
Total short-term investments	749,848			749,848
Long-term investments:				
Certificates of Deposit	1,267,029			1,267,029
Mutual funds - equity securities		$ 12,975,120	$ 9,628,628	22,603,748
Mutual funds - bonds		6,096,105	4,601,013	10,697,118
Cash and money market funds		59,685	109,369	169,054
Total long-term investments	1,267,029	19,130,910	14,339,010	34,736,949
Total	$ 2,016,877	$ 19,130,910	$ 14,339,010	$ 35,486,797

The Corporation's investments were composed of the following at September 30, 2010:

	Endowment	Board Designated	Total
Long-term investments:			
Mutual funds - equity securities	$ 14,613,574	$ 9,937,179	$ 24,550,753
Mutual funds - bonds	5,552,709	3,696,014	9,248,723
Cash and money market funds	59,926	82,213	142,139
Total	$ 20,226,209	$ 13,715,406	$ 33,941,615

The Corporation's endowment and Board designated contributions and net income on investments consist of the following components:

October 1, 2010 – September 30, 2011	Endowment	Board Designated	Total
Contributions invested	$ 263,500	$ 1,443,029	$ 1,706,529
Interest and dividends	$ 599,673	$ 432,145	$ 1,031,818
Realized and unrealized net losses	(849,048)	(705,190)	(1,554,238)
Service fees	(113,160)	(81,183)	(194,343)
Total investment loss	(362,535)	(354,228)	(716,763)
Income transferred to operations	(996,264)	(465,197)	(1,461,461)
Total investment loss, net	$ (1,358,799)	$ (819,425)	$ (2,178,224)

October 1, 2009 – September 30, 2010	Endowment	Board Designated	Total
Contributions invested	$ 3,500	$ 1,887,758	$ 1,891,258
Interest and dividends	$ 558,018	$ 334,266	$ 892,284
Realized and unrealized net gains	1,590,365	999,428	2,589,793
Service fees	(103,985)	(62,743)	(166,728)
Total investment return	2,044,398	1,270,951	3,315,349
Income transferred to operations	(1,072,661)	(398,679)	(1,471,340)
Total investment income, net	$ 971,737	$ 872,272	$ 1,844,009

Under its spending policy, the Corporation may withdraw funds annually provided that such withdrawals may not exceed 5% of the endowments' market value averaged over the prior three years. During the years ended September 30, 2011 and 2010, the Corporation withdrew a total of $1,461,461 and $1,471,340, respectively, which is included as investment income transferred from Endowments on the accompanying Statement of Activities and Changes in Net Assets.

Note 3 - Fair Value of Financial Instruments:

The table below presents Corporation's assets measured at fair value, by category of risks, at September 30, 2011 on a recurring basis.

	2011			
	Level 1	Level 2	Level 3	Total
Short-term investments:				
Certificates of Deposit	$ 749,848			$ 749,848
Long-term investments:				
Cash and equivalents	169,054			169,054
Certificates of Deposit	1,267,029			1,267,029
Mutual funds – equity securities:				
Domestic large company	9,998,429			9,998,429
International large company	4,417,948			4,417,948
Domestic small company	2,444,912			2,444,912
International small company	747,980			747,980
Emerging markets	891,356			891,356
Real estate investment trusts:				
Domestic	2,593,015			2,593,015
International	1,510,109			1,510,109
Mutual funds – bonds:				
Domestic	8,923,949			8,923,949
International	1,773,168			1,773,168
Total	$ 35,486,797			$ 35,486,797
Charitable gift annuities and trusts:				
Cash and equivalents	$ 152,229			$ 152,229
U.S. Treasury notes	764,159			764,159
Mutual funds – equity securities:				
Domestic large company	776,484			776,484
International large company	317,229			317,229
Domestic small company	112,932			112,932
Emerging markets	56,803			56,803
International small company	44,450			44,450
Real estate investment trusts				
Domestic	224,153			224,153
International	134,006			134,006
Mutual funds – bonds:				
Domestic	415,803			415,803
International	120,706			120,706
Split interest investment (non-trustee)			$ 1,960,392	1,960,392
Total	$ 3,118,954		$ 1,960,392	$ 5,079,346

The table below presents Corporation's assets measured at fair value, by category of risks, at September 30, 2010 on a recurring basis.

	2010			
	Level 1	Level 2	Level 3	Total
Long-term investments:				
Cash and equivalents	$ 142,139			$ 142,139
Mutual funds – equity securities:				
Domestic large company	10,473,995			10,473,995
International large company	4,938,329			4,938,329
Domestic small company	2,762,976			2,762,976
International small company	895,213			895,213
Emerging markets	1,066,229			1,066,229
Real estate investment trusts:				
Domestic	2,628,819			2,628,819
International	1,785,192			1,785,192
Mutual funds – bonds:				
Domestic	7,778,424			7,778,424
International	1,470,299			1,470,299
Total	$ 33,941,615			$ 33,941,615
Charitable gift annuities and trusts:				
Cash and equivalents	$ 73,344			$ 73,344
U.S. Treasury notes	712,783			712,783
Mutual funds – equity securities:				
Domestic large company	852,084			852,084
International large company	368,408			368,408
Domestic small company	136,578			136,578
Emerging markets	71,426			71,426
International small company	52,973			52,973
Real estate investment trusts				
Domestic	246,676			246,676
International	163,194			163,194
Mutual funds – bonds:				
Domestic	390,953			390,953
International	93,349			93,349
Split interest investment (non-trustee)			$ 1,967,181	1,967,181
Total	$ 3,161,768		$ 1,967,181	$ 5,128,949

The following is a rollforward of the Level 3 assets:

	Split interest investment (non-trustee)
Fair value at September 30, 2009	$ 1,918,518
Change in value	48,663
Fair value at September 30, 2010	1,967,181
Change in value	(6,789)
Fair value at September 30, 2011	$ 1,960,392

Other financial instruments

Financial instruments, which are included in the Corporation's Statement of Financial Position as of September 30, 2011 but not required to be measured at fair value, consist of cash and cash equivalents, receivables, accounts payable, and long-term liabilities. Their carrying amounts, including the present value of future cash flows, represent a reasonable estimate of the corresponding fair values.

Note 4 - Property and Equipment:

Property and equipment at September 30, 2011 and 2010 consisted of the following:

	2011	2010
Land	$ 3,269,691	$ 3,269,691
Building and improvements	28,467,459	28,313,699
Furniture, fixtures, office equipment and vehicles	9,364,126	8,582,674
TV station equipment	34,351,513	32,874,132
Radio station equipment	5,080,842	4,903,066
Total	80,533,631	77,943,262
Less accumulated depreciation	(43,621,198)	(40,640,937)
Property and equipment, net	$ 36,912,433	$ 37,302,325

Property and equipment are secured against the line of credit (see Note 6), bonds payable, and reversionary interests pursuant to certain government grant agreements (see Note 7).

In 2012, management plans to relocate KQEH operations to a leased facility. Management is currently evaluating its options related to the future use of the KQEH facility owned by the Corporation. At September 30, 2011, the KQEH facility includes land, building and broadcasting equipment, with net book values approximating $3,600,000.

Note 5 - Intangible Assets:

In May 2003, the Corporation acquired the assets of KQEI-FM Radio in North Highlands, California for $3,196,568, which included $64,770 of radio station equipment. The acquisition was accounted for under the purchase method. The purchase price was allocated $2,966,362 to the broadcast license and $165,436 to acquisition costs.

The broadcast license and acquisition costs are reflected as intangible assets on the accompanying Statement of Financial Position and are being amortized over the estimated useful life of 40 years. The accumulated amortization at September 30, 2011 and 2010 as $658,983 and $580,688, respectively. The radio station equipment is included in property and equipment on the accompanying Statement of Financial Position.

In October 2006, the Corporation acquired the assets of KTEH Foundation in San Jose which included a license fee for $300,000 which is being amortized over the estimated useful life of 40 years. The accumulated amortization at September 30, 2011 and 2010 was $86,250 and $78,750, respectively.

The Corporation reviewed these intangibles and determined that the estimated useful lives of 40 years used are appropriate as of September 30, 2011.

Note 6 - Line of Credit:

The Corporation has a revolving line of credit, as amended on July 1, 2011, in the amount of $1,500,000 which expires on July 1, 2013. The line of credit contains certain covenants and is secured by the Corporation's real and personal property (see Note 4). The interest rate is based upon either (i) a fluctuating rate per year equal to the prime rate in effect from time to time or (ii) a fixed rate per year determined by the bank to be 2.25% above LIBOR in effect on the first day of the applicable fixed rate term. The Corporation had no outstanding balance on the line of credit at September 30, 2011.

Note 7 - Bonds Payable:

In April 1996, the Corporation entered into a loan agreement with the California Economic Development Financing Authority for $13,400,000 of Variable Rate Demand Refund Revenue Bonds, Series 1996 (the "Series 1996 Bonds"). The Series 1996 Bonds mature on April 1, 2020. The Corporation makes monthly deposits to a special fund, in amounts which are sufficient to pay Bond principal and interest as the bond payments become due and payable. The $495,997 balance of the special fund as of September 30, 2011 has been included in cash on the accompanying 2011 Statement of Financial Position. The bonds bear interest at a Weekly Interest Rate during a Weekly Interest Rate Period or a Term Interest Rate during a Term Interest Rate Period. A Term Interest Rate Period can have duration of one year or any multiple of one year, or the period of time remaining to the final maturity of the Series 1996 Bonds. The rate (0.25% at September 30, 2011) is set by the remarketing agent and cannot exceed 12% per annum. Interest on the Series 1996 Bonds was based on a Weekly Interest Rate and averaged approximately 0.39% during fiscal year 2011.

The terms of the loan agreement require that a letter of credit be maintained as long as the Series 1996 Bonds are outstanding. Accordingly, the Corporation has an irrevocable letter of credit with Wells Fargo Bank for $2,981,865 and $3,328,563 as of September 30, 2011 and 2010, respectively, which expires on August 15, 2012. The letter of credit is collateralized by a deed of trust on all the real and personal property of the Corporation, excluding certain assets subject to reversionary interest (see Note 4). The nonrefundable Letter of Credit fee as of September 30, 2011, was 1%. Upon the declaration by the bank of an event of default, the letter of credit fee will increase to 2.5% per year. The Series 1996 Bonds are subject to a reimbursement agreement, which has a mandatory redemption at a redemption price equal to the Bond principal amount, and are payable in installments of $390,000 each year through August 15, 2012. The reimbursement agreement contains certain financial and non-financial covenants, which were amended as of October 1, 2009. On September 30, 2011, the Corporation was in compliance with the amended covenants.

The bonds are scheduled for repayment as follows:

Year Ending September 30	
2012	$ 390,000
Thereafter	2,560,000
Total	$ 2,950,000

Note 8 - Temporarily Restricted Net Assets and Releases:

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of other events specified by donors during the year ended September 30, 2011 and 2010:

	2011	2010
Campaign for the Future	$ -	$ 494,704
Underwriting specific productions, equipment or areas of programming	2,781,001	2,934,941
Endowment earnings appropriated	996,264	1,072,661
Planned gifts	64,942	46,600
Unrestricted operations in future periods	-	85,437
	3,842,207	4,139,639
Total	$ 3,842,207	$ 4,634,343

Temporarily restricted net asset balances were available for the following purposes as of September 30, 2011 and 2010:

Endowment earnings not yet spent	$ 3,846,166	$ 5,204,965
Planned gifts	2,905,422	2,999,258
Opportunity and Innovation Fund	761,918	-
Underwrite specific productions or areas of programming	701,730	540,071
Capital projects	28,514	193,743
Total	$ 8,243,750	$ 8,938,037

Note 9 - Endowments:

The Corporation’s endowments consist of donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. Donor-restricted endowment funds are restricted to investment in perpetuity, the income from which is expendable to support programmatic activities of the Corporation. Net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors of the Corporation has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Corporation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by SPMIFA.

In accordance with SPMIFA, the Corporation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) The duration and preservation of the fund, (2) The purposes of the organization and the donor-restricted endowment fund, (3) General economic conditions, (4) The possible effect of inflation and deflation, (5) The expected total return from income and the appreciation of investments, (6) Other resources of the organization, (7) The investment policies of the organization.

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or SPMIFA requires the Corporation to retain as a fund of perpetual duration. No such deficiencies existed as of September 30, 2011 and 2010.

Return Objectives and Risk Parameters

The Corporation’s primary long-term management objective is to preserve the inflation adjusted purchasing power of Endowment funds, while providing an available, stable, and constant stream of earnings to help meet the Corporation's spending needs.

Strategies Employed for Achieving Objectives

The Corporation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives with prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Spending Rule Amount is defined as the annual amount appropriated by the Board of Directors for inclusion in the subsequent year's budget. The withdrawals may not exceed 5% of the Endowment's market value averaged over the prior 12 quarters calculated as of June 30 each year. If this amount would cause the Corporation Permanent Endowment's value to fall below its original gift value level, then the annual Spending Rule Amount to be included in the subsequent fiscal year's budget is limited to the amount in excess of the original gift value.

If the annual Spending Rule Amount becomes limited as so described, this may be considered a "financial emergency" for purposes of making supplemental payouts from the Board-Designated Endowment. If such a financial emergency is determined by the Board of Directors, the Corporation may spend additional amounts from the Board-Designated Endowment up to the entire principal balance in the Board-Designated Endowment.

Endowment funds as of September 30, 2011 are as follows:

	Unrestricted Funds	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds		$ 3,846,166	$ 15,284,744	$ 19,130,910
Board-designated funds	$ 14,339,010			14,339,010
Total endowment funds	$ 14,339,010	$ 3,846,166	$ 15,284,744	$ 33,469,920

Endowment activity by net asset classification as of September 30, 2011:

	Unrestricted Funds	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 13,715,406	$ 5,204,965	$ 15,021,244	$ 33,941,615
Investment return:				
Income	432,145	599,673		1,031,818
Net depreciation	(786,373)	(962,208)		(1,748,581)
Total investment loss (see Note 2)	(354,228)	(362,535)		(716,763)
Contributions	1,443,029		263,500	1,706,529
Appropriation of endowment assets for expenditure	(465,197)	(996,264)		(1,461,461)
Endowment net assets, end of year	$ 14,339,010	$ 3,846,166	$ 15,284,744	$ 33,469,920

Endowment activity by net asset classification as of September 30, 2010:

	Unrestricted Funds	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 10,955,376	$ 4,233,228	$ 15,017,744	$ 30,206,348
Investment return:				
Income	334,266	558,018		892,284
Net appreciation	936,685	1,486,380		2,423,065
Total investment return (see Note 2)	1,270,951	2,044,398		3,315,349
Contributions	1,887,758		3,500	1,891,258
Appropriation of endowment assets for expenditure	(398,679)	(1,072,661)		(1,471,340)
Endowment net assets, end of year	$ 13,715,406	$ 5,204,965	$ 15,021,244	$ 33,941,615

Note 10 - Commitments and Contingencies:

The Corporation leases real estate property in connection with their operation of noncommercial public television and radio stations. The following is a schedule of future minimum lease payments required under noncancelable operating leases as of September 30, 2011:

September 30	
2012	$ 911,661
2013	818,674
2014	598,018
2015	447,270
2016	351,287
Thereafter	450,104
Total minimum rental payments	$ 3,577,014

The minimum lease payments do not include future cost of living escalations and pro rata property tax allocations, which are required for certain of the leases.

Total rent expense, including month-to-month leases, was $908,949 and $907,322 for the years ended September 30, 2011 and 2010, respectively.

In September 2007, the Corporation entered into an agreement with Sutro Tower, Inc. to construct certain improvements and install digital television equipment and facilities ("Common DTV Facilities") to accommodate the mandate by the Federal Communications Commission to cease analog transmission of television signals and broadcast exclusively in digital television format effective February 17, 2009. The Corporation will incur ongoing costs of operating, insuring, repairing, replacing and maintaining the Common DTV Facilities, which is factored into the annual rent calculation formula pursuant to the current lease agreement.

In July 2010, the Corporation entered into an agreement to lease copies and printing equipment. The following is a schedule of future minimum lease payments required under noncancelable capital leases as of September 30, 2011:

September 30		
2012	$	43,464
2013		43,464
Total minimum rental payments	$	86,928

The Corporation is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Corporation's financial position or its change in net assets.

Note 11 - Retirement Plan:

The Corporation has two retirement plans established for its employees: the 403(b) tax sheltered annuity plan, which is funded by employee contributions, and the 401(a) money purchase pension plan, which is funded by the employer's matching share amount. Effective September 27, 2007, the Corporation amended and restated the 403(b) plan to incorporate the employer contribution terms of the 401(a) plan and certain other changes into the 403(b) plan effective January 1, 2008. Furthermore, the Corporation froze all future employer contributions into the 401(a) plan as of December 31, 2007 and directed the employer's matching share amount into the 403(b) plan. On October 1, 2010 the IRS issued a determination letter addressing the proposed termination of the 401(a) plan. The IRS has determined that the termination of the 401(a) plan does not adversely affect the 401(a) plan's qualification for federal tax purposes. The 401(a) plan is expected to be fully terminated during 2011 by transferring its remaining plan assets to the Corporations' tax sheltered annuity plan. Contribution costs, funded currently, were approximately $585,000 and $543,000 for the years ended September 30, 2011 and 2010, respectively.

Effective December 1, 2003, the Corporation established a 457(b) deferred compensation plan primarily for the purpose of providing deferred compensation for a select group of employees to accumulate retirement assets. The 457(b) plan enables participants to defer income on a pre-tax basis and is not matched with contributions from the Corporation. As of September 30, 2011 and 2010, approximately $179,000 and $69,000, respectively, has been deferred based on elections made by the participants.

Note 12 - Related Party Transactions:

The Corporation has transactions, in the normal course of business, where directors and employees make contributions to the Corporation. For the years ended September 30, 2011 and 2010, those contributions were approximately $527,000 and $322,000, respectively, and at September 30, 2011 and 2010 the receivable balance was approximately $50,000 and $60,000, respectively.

Note 13 - Testamentary Gift:

During 2011, the Corporation was notified of a significant testamentary gift through a bequest. This gift has not been recorded in the accompanying financial statements because the donor's will has not yet been declared valid by the probate court and the value of the amount to be received is not yet determinable. However, management estimates that the fair market value of assets to be received could be $2,300,000 or more.