KQED INC.

SEPTEMBER 30, 2012

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 statement of financial position of **KQED INC., (the Corporation)** as of September 30, 2012 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 2011 financial statements, and in our report dated December 12, 2011, 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, 2012, 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.

Hood & Strong LLP

San Francisco, California
December 6, 2012

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CELEBRATING 1234567890 YEARS AND STILL COUNTING

KQED Inc.

Statement of Financial Position

September 30, 2012 (with comparative totals for 2011)	2012	2011
Assets		
Current Assets:		
Cash and cash equivalents	$ 8,250,536	$ 13,107,924
Restricted cash (see Note 1)	1,641,309	1,609,104
Accounts and contributions receivable, less allowance for doubtful accounts of $224,761 in 2012 and $152,052 in 2011, respectively	3,601,071	2,968,065
Grants and underwriting receivable	3,025,055	2,374,786
Short term investments (see Note 2)	2,999,202	749,848
Other current assets	883,192	922,454
Total current assets	20,400,365	21,732,181
Long Term Contribution Receivable	544,000	-
Charitable Gift Annuities and Trusts	6,172,360	5,079,346
Long Term Investments (see Note 2)	46,397,285	34,736,949
Bond Financing Costs	-	236,367
Intangible Assets, net (see Note 5)	2,600,771	2,686,566
Property and Equipment, net (see Note 4)	34,154,207	36,912,433
Total assets	$ 110,268,988	$ 101,383,842
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable and accrued expenses	$ 6,625,122	$ 6,269,225
Accrued broadcast rights	1,165,086	1,130,004
Current portion of bonds payable (see Note 7)	-	390,000
Deferred production and underwriting revenues	610,492	852,025
Total current liabilities	8,400,700	8,641,254
Long Term Liabilities	2,734,128	2,304,976
Bonds Payable (see Note 7)	-	2,560,000
Total liabilities	11,134,828	13,506,230
Net Assets:		
Unrestricted	70,566,274	64,125,675
Temporarily restricted (see Note 8)	12,504,675	8,243,750
Permanently restricted	16,063,211	15,508,187
Total net assets	99,134,160	87,877,612
Total liabilities and net assets	$ 110,268,988	$ 101,383,842

The accompanying notes are an integral part of this statement.

KQED Inc.

Statement of Activities and Changes in Net Assets

Year Ended September 30, 2012 (with comparative totals for 2011)

	2012				2011
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Revenues, Support and Other Changes:					
Contributions and membership fees	$ 33,871,502			$ 33,871,502	$ 33,883,900
Underwriting and general grants	13,704,376			13,704,376	11,967,319
Project grants		$ 2,164,477		2,164,477	2,495,499
Community service grants	4,401,517			4,401,517	5,000,161
Bequests and trusts	4,987,032	544,000		5,531,032	1,378,088
Investment income transferred from Endowments (see Note 2)	584,213	967,992		1,552,205	1,461,461
Other	3,174,744	729		3,175,473	3,736,244
Net assets released from restrictions	2,995,821	(2,995,821)		-	-
Subtotal	63,719,205	681,377		64,400,582	59,922,672
Trade and In-kind donations	2,625,498			2,625,498	2,644,718
Total revenues, support and other changes	66,344,703	681,377		67,026,080	62,567,390
Expenses:					
Program services:					
Television:					
Programming and production	15,277,807			15,277,807	14,257,812
Broadcast services	5,571,554			5,571,554	5,244,619
Radio:					
Programming and production	9,150,189			9,150,189	8,609,032
Broadcast services	2,025,534			2,025,534	1,935,229
Education network	998,526			998,526	962,644
Program promotion	2,298,186			2,298,186	2,425,371
Interactive	2,359,718			2,359,718	2,382,384
Total program services	37,681,514			37,681,514	35,817,091
Support services:					
Marketing and development	14,788,355			14,788,355	13,886,934
General and administrative	7,361,507			7,361,507	7,039,136
Total support services	22,149,862			22,149,862	20,926,070
Subtotal	59,831,376			59,831,376	56,743,161
Trade and In-kind expenses	2,525,162			2,525,162	2,709,247
Total expenses	62,356,538			62,356,538	59,452,408
Change in Net Assets Before Endowment and Opportunity and Innovation Fund	3,988,165	681,377		4,669,542	3,114,982
Permanent Endowment, Charitable Gift Annuities and Trust Contributions		248,063	$ 504,500	752,563	377,681
Change in Value - Charitable Gift Annuities and Trusts		397,381	50,524	447,905	(213,377)
Net Investment (Loss) Income on Endowments (see Note 2)	2,452,561	2,844,899		5,297,460	(2,178,224)
Opportunity and Innovation Fund:					
Support		164,447		164,447	761,918
Net assets released from restrictions	75,242	(75,242)		-	-
Project expenses	(75,369)			(75,369)	(16)
Change in Net Assets	6,440,599	4,260,925	555,024	11,256,548	1,862,964
Net Assets, beginning of year	64,125,675	8,243,750	15,508,187	87,877,612	86,014,648
Net Assets, end of year	$ 70,566,274	$ 12,504,675	$ 16,063,211	$ 99,134,160	$ 87,877,612

The accompanying notes are an integral part of this statement.

KQED Inc.

Statement of Cash Flows

Year Ended September 30, 2012 (with comparative totals for 2011)	2012	2011
Operating Activities:		
Change in net assets	$ 11,256,548	$ 1,862,964
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	3,553,767	3,550,913
Net realized and unrealized (gain) loss on investments	(6,053,056)	1,554,238
Bad debt expense and cancelled contracts	52,466	228,374
Amortization of bond financing costs	236,367	28,162
Loss on disposal of equipment	558,746	-
Gain on sale of building and land	(99,007)	-
Permanent endowment contribution	(504,500)	(263,500)
Net effect of changes in:		
Accounts and contributions receivable	(1,229,473)	(94,857)
Grants and underwriting receivable	(650,269)	(9,334)
Charitable gift annuities and trusts	(1,093,014)	112,997
Other current assets	39,262	(139,767)
Accounts payable, accrued expenses and other liabilities	716,967	726,918
Deferred production and underwriting revenues	(241,533)	353,695
Net cash provided by operating activities	6,543,271	7,910,803
Investing Activities:		
Purchases of investments	(10,755,733)	(4,956,105)
Proceeds from sales of investments	2,899,099	1,793,292
Proceeds from sale of land, building and equipment	2,303,000	-
Purchases of equipment	(3,369,320)	(3,652,893)
Net cash used by investing activities	(8,922,954)	(6,815,706)
Financing Activities:		
Payment on bonds	(2,950,000)	(390,000)
Permanent endowment contribution	504,500	263,500
Net cash used by financing activities	(2,445,500)	(126,500)
Change in Cash, Cash Equivalents and Restricted Cash	(4,825,183)	968,597
Cash, Cash Equivalents and Restricted Cash:		
Beginning of year	14,717,028	13,748,431
End of year	$ 9,891,845	$ 14,717,028
Supplemental Data:		
Interest paid	$ 41,341	$ 49,165
Non-Cash Transactions:		
Equipment purchases included in payables at year end	$ 864,726	$ 721,522

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.

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. Restricted cash includes funds restricted by various funders for specific projects and operating periods.

d. Receivables

The Corporation’s accounts and contribution receivable consist primarily of amounts due from members and advertising trades. Grants and underwriting receivable consist of amounts due from foundations and corporate sponsors. 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, 2012 and 2011, contribution receivable were approximately $2,798,000 and $2,519,000, 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 provides the Corporation with the flexible working capital to respond to the quickly evolving opportunities of the digital media environment. The fund enables 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

Long term investments include endowments and operating investments that are invested for long term purposes.

Investments 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

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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. 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, 2012 and 2011, future annuity payments due to beneficiaries of charitable gift annuities and trusts totaled approximately $2,372,000 and $1,950,000, 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, 2012, 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.

k. 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. These costs were fully amortized in July 2012 concurrent with the bond repayment.

l. 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.

m. 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.

n. 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 $2,789,000 and $2,278,000 in the years ended September 30, 2012 and 2011, 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.

o. In-Kind Contributions

In-kind contributions consist of donated professional and other services and donated goods. The estimated fair value of these donations approximated $3,000 and $826,000 for the year ended September 30, 2012, respectively, and $0 and $934,000 for the year ended September 30, 2011, 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 $149,000 and $128,000 for the years ended September 30, 2012 and 2011, respectively.

p. 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, 2012 and 2011, sponsorship barter transactions resulted in the recognition of approximately $1,792,000 and $1,711,000, respectively, in revenues and approximately $1,665,000 and $1,777,000, respectively, in expenses in the accompanying Statement of Activities and Changes in Net Assets.

q. 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 the Internal Revenue Service for tax years ending September 30, 2008 and before. Similarly, the Corporation is no longer subject to tax examinations by the California Franchise Tax Board for tax years ending September 30, 2007 and before..

r. 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.

s. Concentrations of Credit Risk

Financial instruments which potentially subject the Corporation to credit risk include cash, cash equivalents, restricted cash, investments, and accounts and contribution, grants and underwriting 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, 2012.

t. 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.

u. Comparative Financial Information

The financial statements include certain summarized comparative information as of and for the year ended September 30, 2011 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, 2011, from which the summarized financial information was derived.

v. 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 became effective for the fiscal year ended in 2011. The Corporation has implemented the update beginning October 1, 2010.

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.

w. Subsequent Events

The Corporation evaluated subsequent events through December 6, 2012, the date these financial statements were available to be issued. Except as described below, there are no other material subsequent events that required recognition or additional disclosure in these financial statements.

Effective October 1, 2012, The National Science Foundation awarded a two year grant of $2,500,000 to the Corporation for support of science project *QUEST Beyond Local*.

Note 2 - Investments:

The Corporation's investments were composed of the following at September 30, 2012:

	Operating	Endowment	Board Designated	Total
Short-term investments:				
Certificates of deposit	$ 2,999,202			$ 2,999,202
Total short-term investments	2,999,202			2,999,202
Long-term investments:				
Certificates of deposit	250,641			250,641
Corporate bonds	2,024,218			2,024,218
Mutual funds - equity securities		$ 15,839,280	$ 15,246,018	31,085,298
Mutual funds - bonds		6,576,649	6,270,977	12,847,626
Cash and money market funds		64,380	125,122	189,502
Total long-term investments	2,274,859	22,480,309	21,642,117	46,397,285
Total	$ 5,274,061	$ 22,480,309	$ 21,642,117	$ 49,396,487

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 endowment and Board designated contributions and net income on investments consist of the following components:

October 1, 2011 – September 30, 2012	Endowment	Board Designated	Total
Contributions invested	$ 504,500	$ 4,850,545	$ 5,355,045
Interest and dividends	$ 540,416	$ 438,399	$ 978,815
Realized and unrealized net gains	3,382,083	2,684,338	6,066,421
Service fees	(109,608)	(85,963)	(195,571)
Total investment gains	3,812,891	3,036,774	6,849,665
Income transferred to operations	(967,992)	(584,213)	(1,552,205)
Total investment gain, net	$ 2,844,899	$ 2,452,561	$ 5,297,460

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)

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, 2012 and 2011, the Corporation withdrew a total of $1,552,205 and $1,461,461, 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, 2012 on a recurring basis.

	2012			
	Level 1	Level 2	Level 3	Total
Short-term investments:				
Certificates of Deposit	$ 2,999,202			$ 2,999,202
Long-term investments:				
Cash and equivalents	189,503			189,503
Certificates of Deposit	250,641			250,641
Corporate bonds	2,024,218			2,024,218
Mutual funds – equity securities:				
Domestic large company	12,524,030			12,524,030
International large company	6,080,194			6,080,194
Domestic small company	3,474,278			3,474,278
International small company	1,095,194			1,095,194
Emerging markets	2,241,409			2,241,409
Real estate investment trusts:				
Domestic	3,452,596			3,452,596
International	2,217,598			2,217,598
Mutual funds – bonds:				
Domestic	10,886,386			10,886,386
International	1,961,240			1,961,240
Total	$ 49,396,487			$ 49,396,487
Charitable gift annuities and trusts:				
Cash and equivalents	$ 90,554			$ 90,554
U.S. Treasury notes	998,191			998,191
Mutual funds – equity securities:				
Domestic large company	1,036,155			1,036,155
International large company	467,863			467,863
Domestic small company	171,629			171,629
Emerging markets	154,859			154,859
International small company	69,003			69,003
Real estate investment trusts				
Domestic	325,898			325,898
International	206,947			206,947
Mutual funds – bonds:				
Domestic	442,836			442,836
International	162,620			162,620
Split interest investment (non-trustee)			$ 2,045,807	2,045,807
Total	$ 4,126,553		$ 2,045,807	$ 6,172,360

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 following is a rollforward of the Level 3 assets:

	Split interest investment (non-trustee)
Fair value at September 30, 2010	$ 1,967,181
Change in value	(6,789)
Fair value at September 30, 2011	1,960,392
Change in value	85,415
Fair value at September 30, 2012	$ 2,045,807

Other financial instruments

Financial instruments, which are included in the Corporation's Statement of Financial Position as of September 30, 2012 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, 2012 and 2011 consisted of the following:

	2012	2011
Land	$ 1,269,691	$ 3,269,691
Building and improvements	28,457,970	28,467,459
Furniture, fixtures, office equipment and vehicles	9,997,022	9,364,126
TV station equipment	33,486,429	34,351,513
Radio station equipment	5,639,285	5,080,842
Total	78,850,397	80,533,631
Less accumulated depreciation	(44,696,190)	(43,621,198)
Property and equipment, net	$ 34,154,207	$ 36,912,433

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

During the year, the Corporation sold its KTEH land and building for $2,300,000 for a net gain of $99,007. As a result of the building sale, broadcast equipment with book value of $558,746 was subsequently retired.

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, 2012 and 2011 as $737,278 and $658,983, 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, 2012 and 2011 was $93,750 and $86,250, respectively.

The Corporation reviewed these intangibles and determined that the estimated useful lives of 40 years used are appropriate as of September 30, 2012.

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, 2012.

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 was redeemed in full on July 1, 2012.

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, 2012 and 2011:

	2012	2011
Opportunity and Innovation Fund	$ 75,242	$ -
Underwriting specific productions, equipment or areas of programming	2,003,316	2,781,001
Endowment earnings appropriated	967,992	996,264
Planned gifts	24,513	64,942
	2,995,821	3,842,207
Total	$ 3,071,063	$ 3,842,207

Temporarily restricted net asset balances were available for the following purposes as of September 30, 2012 and 2011:

Endowment earnings not yet spent	$ 6,691,065	$ 3,846,166
Planned gifts	4,070,353	2,905,422
Opportunity and Innovation Fund	851,123	761,918
Underwrite specific productions or areas of programming	892,134	701,730
Capital projects	-	28,514
Total	$ 12,504,675	$ 8,243,750

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, 2012 and 2011.

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, 2012 are as follows:

	Unrestricted Funds	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds		$ 6,691,065	$ 15,789,244	$ 22,480,309
Board-designated funds	$ 21,642,117			21,642,117
Total endowment funds	$ 21,642,117	$ 6,691,065	$ 15,789,244	$ 44,122,426

Endowment activity by net asset classification as of September 30, 2012:

	Unrestricted Funds	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 14,339,010	$ 3,846,166	$ 15,284,744	$ 33,469,920
Investment return:				
Income	438,400	540,416		978,816
Net appreciation	2,598,375	3,272,475		5,870,850
Total investment income (see Note 2)	3,036,775	3,812,891		6,849,666
Contributions	4,850,545		504,500	5,355,045
Appropriation of endowment assets for expenditure	(584,213)	(967,992)		(1,552,205)
Endowment net assets, end of year	$ 21,642,117	$ 6,691,065	$ 15,789,244	$ 44,122,426

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

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, 2012:

September 30		
2013	$	911,280
2014		679,504
2015		527,696
2016		391,500
2017		143,072
Thereafter		307,032
Total minimum rental payments	$	2,960,084

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 $1,021,743 and $908,949 for the years ended September 30, 2012 and 2011, respectively.

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, 2012:

September 30		
2013	$	40,339
2014		24,918
Total minimum rental payments	$	65,257

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.

As of September 30, 2012, the Corporation has contractual commitments of approximately $468,000 related to acquisition of equipment.

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 was fully terminated during 2011 by transferring its remaining plan assets to the Corporations' tax sheltered annuity plan. Contribution costs, funded currently, were approximately $578,000 and $585,000 for the years ended September 30, 2012 and 2011, 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, 2012 and 2011, approximately $110,000 and $179,000, 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, 2012 and 2011, those contributions were approximately $497,000 and $527,000, respectively, and at September 30, 2012 and 2011 the receivable balance was approximately $81,000 and $50,000, respectively.