

KQED INC.

SEPTEMBER 30, 2015

INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

KQED Inc.

Independent Auditors' Report and Financial Statements

Independent Auditors' Report	1 - 2
-------------------------------------	-------

Financial Statements

Statement of Financial Position	3
---------------------------------	---

Statement of Activities and Changes in Net Assets	4
---	---

Statement of Cash Flows	5
-------------------------	---

Notes to Financial Statements	6 - 26
-------------------------------	--------

Independent Auditors' Report

THE BOARD OF DIRECTORS
KQED INC.
San Francisco, California

Report on the Financial Statements

We have audited the accompanying financial statements of **KQED INC., (the Corporation)** which comprise the statement of financial position as of September 30, 2015, and the related statements of activities and changes in net assets and cash flows for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of KQED Inc. as of September 30, 2015, and the results of its activities and changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Corporation's September 30, 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 11, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Emphasis-of-Matter

As discussed in Note 1 r. to the financial statements, the Corporation reclassified certain expenses from Television and Radio Programming and Production to Multiplatform content within program services in the 2015 Statement of Activities and Changes in Net Assets. These reclassifications have no impact on results of operations. No such reclassifications were made in the 2014 Statement of Activities and Changes in Net Assets.

Hood & Strong LLP

San Francisco, California
December 8, 2015

KQED Inc.

Statement of Financial Position

<i>September 30, 2015 (with comparative totals for 2014)</i>	2015	2014
Assets		
Cash and cash equivalents	\$ 8,602,976	\$ 12,126,192
Restricted cash	10,012,554	3,734,587
Receivables, net	5,612,373	6,842,045
Prepaid expense and other assets	1,254,204	1,109,336
Investments	60,438,066	61,331,955
Deferred compensation investments	1,465,532	1,321,610
Charitable gift annuities and trusts	6,703,705	6,663,906
Intangible assets, net	2,343,386	2,429,181
Property and equipment, net	37,059,547	35,592,409
Total assets	\$ 133,492,343	\$ 131,151,221
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 8,430,457	\$ 9,819,165
Accrued broadcast rights	1,277,057	1,199,660
Deferred production and underwriting revenues	467,726	542,425
Deferred compensation obligations	1,465,532	1,322,074
Liabilities to beneficiaries of charitable gift annuities and trusts	2,445,428	2,362,068
Total liabilities	14,086,200	15,245,392
Net Assets:		
Unrestricted	80,588,477	80,778,929
Temporarily restricted	22,493,790	18,854,323
Permanently restricted	16,323,876	16,272,577
Total net assets	119,406,143	115,905,829
Total liabilities and net assets	\$ 133,492,343	\$ 131,151,221

See accompanying notes to financial statements.

KQED Inc.

Statement of Activities and Changes in Net Assets

Year Ended September 30, 2015 (with comparative totals for 2014)

	2015			2014 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenues, Support and Other Changes:				
Contributions and membership fees	\$ 38,013,586			\$ 35,717,209
Underwriting and general grants	15,598,384			16,002,539
Project grants		\$ 3,233,046		2,036,136
Community service grants	5,967,880			5,510,108
Bequests and trusts	2,081,941			2,896,358
Investment income appropriated from endowments	1,158,851	1,157,598		2,014,920
Government grants and other revenue	743,006			2,770,084
Trade and In-kind donations	2,091,164			2,047,609
Net assets released from restrictions	3,707,368	(3,707,368)		-
Total revenues, support and other changes	69,362,180	683,276		68,994,963
Expenses:				
Program services:				
Television:				
Programming and production	12,722,973			14,164,782
Broadcast services	6,029,285			5,933,516
Radio:				
Programming and production	5,231,382			9,707,490
Broadcast services	2,255,104			2,264,499
Multiplatform content	9,964,087			4,003,161
Education network	942,380			920,847
Program promotion	3,320,580			3,153,710
Interactive	2,572,621			2,545,841
Total program services	43,038,412			42,693,846
Support services:				
Marketing and development	16,904,868			16,152,773
General and administrative	9,017,044			8,160,503
Total support services	25,921,912			24,313,276
Total expenses	68,960,324			67,007,122
Change in Net Assets Before Endowment, Opportunity and Innovation Fund and Campaign 21	401,856	683,276		1,987,841
Permanent Endowment, Charitable Gift Annuities and Trust Contributions		303,988	\$ 126,549	236,104
Change in Value - Charitable Gift Annuities and Trusts		(177,248)	(75,250)	145,081
Investment (Loss) Income on Endowments, Net	(1,960,914)	(1,697,017)		2,542,707
Opportunity and Innovation Fund:				
Net assets released from restrictions	227,621	(227,621)		-
Project expenses	(227,621)			(372,009)
Campaign 21:				
Support		9,061,169		1,776,951
Net assets released from restrictions	4,307,080	(4,307,080)		-
Project expenses	(2,613,242)			(1,031,757)
Support services:				
Development	(239,788)			(145,835)
General and administrative	(85,444)			(41,476)
Change in Net Assets	(190,452)	3,639,467	51,299	5,097,607
Net Assets, beginning of year	80,778,929	18,854,323	16,272,577	110,808,222
Net Assets, end of year	\$ 80,588,477	\$ 22,493,790	\$ 16,323,876	\$ 115,905,829

See accompanying notes to financial statements.

KQED Inc.

Statement of Cash Flows

<i>Year Ended September 30, 2015 (with comparative totals for 2014)</i>	2015	2014
Operating Activities:		
Change in net assets	\$ 3,500,314	\$ 5,097,607
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	4,163,362	3,626,520
Amortization of discount on long-term promises to give	(1,050)	(10,578)
Realized and unrealized net loss (gain) on investments	3,368,554	(2,910,708)
Bad debt expense and cancelled contracts	24,014	71,117
Loss on disposal of equipment	10,399	120,497
Permanent endowment contribution	(126,549)	(183,500)
Net effect of changes in:		
Receivables	1,076,708	2,059,126
Prepaid expense and other assets	(144,868)	(205,757)
Charitable gift annuities and trusts	(67,023)	(161,249)
Accounts payable, accrued expenses and other liabilities	(594,091)	601,241
Deferred production and underwriting revenues	(74,699)	12,954
Net cash provided by operating activities	11,135,071	8,117,270
Investing Activities:		
Purchases of investments	(9,842,300)	(11,406,473)
Proceeds from sales of investments	7,394,395	10,650,207
Proceeds from sale of equipment	19,110	
Purchases of equipment	(6,208,074)	(3,490,309)
Net cash used in investing activities	(8,636,869)	(4,246,575)
Financing Activities:		
Permanent endowment contribution	256,549	3,500
Net cash provided by financing activities	256,549	3,500
Change in Cash, Cash Equivalents and Restricted Cash	2,754,751	3,874,195
Cash, Cash Equivalents and Restricted Cash:		
Beginning of year	15,860,779	11,986,584
End of year	\$ 18,615,530	\$ 15,860,779
Supplemental Data:		
Interest paid	\$ 2,957	\$ 438
Non-Cash Transactions:		
Equipment purchases included in payables at year end	\$ 1,627,402	\$ 2,261,262
Permanent endowment receivable	\$ 10,000	\$ 180,000

See accompanying notes to financial statements.

KQED Inc.

Notes to the Financial Statements

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, KQEDNews.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, Cash Equivalents and Restricted Cash

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, as well as deferred obligations for underwriting.

d. Receivables

The Corporation’s accounts and contributions receivable consist primarily of amounts due from general members, individual donors and advertising trades. Grants and underwriting receivables consist of amounts due from foundations and corporate sponsors. Receivables are recorded at the present value of the estimated future cash flows. The discounts are computed using risk-free rates applicable in the years in which the commitments are received.

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.

KQED Inc.

Notes to the Financial Statements

e. Investments

The Corporation's investments consist of stocks, bonds, mutual funds, certificates of deposit, cash and money market funds, and limited partnerships.

Investments excluding the investments in limited partnerships 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.

The Corporation holds significant ownership interests in two limited partnerships and accounts for these investments under the equity method. Under the equity method of accounting, the financial statements of the limited partnerships are not consolidated with the Corporation's financial statements; however, the Corporation's share of the earnings or losses of the limited partnerships are reflected in other revenues in the Statement of Activities and Changes in Net Assets. The Corporation's carrying value of the investments in the limited partnerships are included in investments as reflected in the Statement of Financial Position (see Note 3).

f. 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. The present value of the estimated payouts under the agreement is computed using actuarial methods and the 2000CM mortality table, with a discount rate of 1.2% to 8.2%, representing the risk-adjusted rate applicable in the year the gift was made, and expected return based on current market conditions. 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, 2015 and 2014, future annuity payments due to beneficiaries of charitable gift annuities and trusts totaled \$2,445,428 and \$2,362,068, respectively, on the accompanying Statement of Financial Position.

Charitable trust assets also include the fair value of the Corporation's remainder interest receivable in certain trusts where the Corporation is not the trustee. The fair value of these trusts is measured based upon the estimated net present value of amounts to be received using investment values reported from the trustees less liabilities to beneficiaries calculated using the valuation technique as described above.

KQED Inc.

Notes to the Financial Statements

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, 2015, 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.

g. 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 (annually) 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.

h. 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.

i. 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.

j. 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.

KQED Inc.

Notes to the Financial Statements

k. 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. As of September 30, 2015, permanently restricted net assets include invested endowment funds of \$16,064,793, beneficiary interest in a charitable remainder annuity trust of \$209,083 and \$50,000 in planned gift receivables.

l. Revenue Recognition

Contributions and charitable grants are recognized as revenue at fair value 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 Changes in Net Assets and approximated \$2,685,000 and \$2,686,000 in the years ended September 30, 2015 and 2014, respectively, which includes the value of de minimus premium items.

Corporate underwriting support is recognized as unrestricted revenue when earned based on broadcasting of related acknowledgements. Government grants are recognized when allowable costs have been incurred. Funds received in advance are reported in deferred revenue.

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 restrictions.

m. In-Kind Contributions

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.

In-kind contributions consist of donated professional and other services and donated goods. The estimated fair value of these donations approximated \$4,000 and \$522,000 for the year ended September 30, 2015, respectively, and \$6,000 and \$548,000 for the year ended September 30, 2014, 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 \$145,000 and \$181,000 for the years ended September 30, 2015 and 2014, respectively.

KQED Inc.

Notes to the Financial Statements

n. 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, 2015 and 2014, sponsorship barter transactions resulted in the recognition of approximately \$1,566,000 and \$1,494,000, respectively, in revenues and approximately \$1,575,000 and \$1,480,000, respectively, in expenses in the accompanying Statement of Activities and Changes in Net Assets.

o. Opportunity and Innovation Fund

The 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. The Opportunity and Innovation Fund was fully depleted at the end of fiscal year 2015.

p. Campaign 21

There is a transformation in the media industry due to the digital revolution. To compete in this new age KQED has embarked on a multi-year fundraising campaign to generate contributions to create a new infrastructure and reinvent the way the Corporation creates content and convenes community dialogue. In fiscal years 2015 and 2014, the Corporation received support of approximately \$9,061,000 and \$1,777,000, respectively.

Campaign 21 assets included in the Statement of Financial Position consist of the following:

	2015	2014
Restricted cash	\$ 8,736,105	\$ 2,789,099
Receivables, net	252,694	1,017,183
Property and equipment, net	1,272,927	428,428
	<hr/>	<hr/>
	\$ 10,261,726	\$ 4,234,710

KQED Inc.

Notes to the Financial Statements

q. Income Taxes

The Corporation is a tax exempt organization under Internal Revenue Service Code Section 501(c)(3) and 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. Management evaluated the Corporation's tax position and concluded that the Corporation had maintained its tax exempt status and had taken no uncertain tax positions that required adjustment to the financial statements. Therefore, no provision or liability for income taxes has been included in the financial statements.

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.

In fiscal year 2015, the Corporation reclassified certain expenses from Television and Radio Programming and Production to Multiplatform content within program services in the Statement of Activities and Changes in Net Assets in order to align the functional categories with the Corporation's focus on creating content by genre and growing audience. These reclassifications have no impact on results of operations. No such reclassifications were made in the 2014 Statement of Activities and Changes in Net Assets.

s. Concentrations of Credit Risk

Financial instruments which potentially subject the Corporation to credit risk include cash, cash equivalents, restricted cash, investments, and 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, 2015. As of September 30, 2015, the Corporation's cash, cash equivalents and investments were in excess of the federal depository and securities investor protection corporation insurance limits.

t. Collective Bargaining Agreements

The Corporation has two union collective bargaining agreements which cover approximately 36% of its employees: NABET, which expires in October 2016 and SAG-AFTRA KQED-FM, which expired in September 2014. Negotiations on the renewal of the SAG-AFTRA KQED-FM contract have recently completed and the new four-year collective bargaining agreement was ratified by the bargaining unit. When signed, the collective bargaining agreement will expire in September 2018.

KQED Inc.

Notes to the Financial Statements

The Corporation also has a basic minimum agreement with SAG-AFTRA covering performers appearing on KQED-TV, which expires in December 2016. Additionally, KQED is a signatory to the SAG-AFTRA Public Television Agreement which covers performers who appear on television programs distributed nationally. It has expired, and PBS and producing stations including KQED are currently in discussions with SAG-AFTRA on a renewal.

u. 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.

v. Comparative Financial Information

The financial statements include certain summarized comparative information as of and for the year ended September 30, 2014 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, 2014, from which the summarized financial information was derived.

w. Recent Accounting Pronouncements

Adopted

In April 2013, the FASB issued an update which requires a recipient not-for-profit entity to recognize all services received from personnel of an affiliate that directly benefit the recipient not-for-profit entity. Those services should be measured at the cost recognized by the affiliate for the personnel providing those services. However, if measuring such service at cost will significantly overstate or understate the value of the service received, the recipient not-for-profit entity may elect to recognize that service at either: (a) the cost recognized by the affiliate for the personnel providing that service, or (b) the fair value of that service. This guidance is effective prospectively for fiscal years beginning after June 15, 2014. The Corporation adopted this update which does not have a significant impact on its financial statements.

Pronouncements Effective in the Future

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This guidance is effective for fiscal years beginning after December 15, 2017. The Corporation is evaluating the impact this update will have on its financial statements.

KQED Inc.

Notes to the Financial Statements

x. Subsequent Events

The Corporation evaluated subsequent events from September 30, 2015 through December 8, 2015, the date these financial statements were available to be issued. There are no material subsequent events that required recognition or additional disclosure in these financial statements.

Note 2 - Receivables:

At September 30, 2015, receivables consist of the following:

	Accounts and Contributions Receivable	Grants and Underwriting Receivable	Campaign 21 Receivable	Total
Amounts due in:				
One year or less	\$ 2,253,610	\$ 3,274,942	\$ 120,200	\$ 5,648,752
Two to three years (net of discount of \$906)			132,494	132,494
Less: allowance for doubtful accounts	(18,873)	(150,000)		(168,873)
Total	\$ 2,234,737	\$ 3,124,942	\$ 252,694	\$ 5,612,373

At September 30, 2014, receivables consist of the following:

	Accounts and Contributions Receivable	Grants and Underwriting Receivable	Campaign 21 Receivable	Total
Amounts due in:				
One year or less	\$ 3,009,232	\$ 2,994,150	\$ 964,539	\$ 6,967,921
Two to four years (net of discount of \$1,956)	30,000		52,644	82,644
	3,039,232	2,994,150	1,017,183	7,050,565
Less: allowance for doubtful accounts	(58,520)	(150,000)		(208,520)
Total	\$ 2,980,712	\$ 2,844,150	\$ 1,017,183	\$ 6,842,045

KQED Inc.

Notes to the Financial Statements

Note 3 - Investments:

The Corporation's investments were composed of the following at September 30, 2015:

	Operating	Endowment	Board Designated	Total
Certificates of deposit	\$ 3,501,293			\$ 3,501,293
Mutual funds - equity		\$ 16,740,650	\$ 22,665,569	39,406,219
Mutual funds - bonds		7,224,133	9,877,086	17,101,219
Cash and money market funds		59,597	49,738	109,335
Limited partnership interest	320,000			320,000
Total	\$ 3,821,293	\$ 24,024,380	\$ 32,592,393	\$ 60,438,066

The Corporation's investments were composed of the following at September 30, 2014:

	Operating	Endowment	Board Designated	Total
Certificates of deposit	\$ 3,498,649			\$ 3,498,649
Mutual funds - equity		\$ 17,947,148	\$ 22,290,898	40,238,046
Mutual funds - bonds		7,454,422	9,289,403	16,743,825
Cash and money market funds		63,278	208,157	271,435
Limited partnership interest	580,000			580,000
Total	\$ 4,078,649	\$ 25,464,848	\$ 31,788,458	\$ 61,331,955

Investment in Limited Partnership

The Corporation's investments in the limited partnerships are accounted for under the equity method and are adjusted annually for impairment and management fees.

In December 2012, the Corporation entered into a limited partnership agreement with Matter Ventures, LLC to form Matter Ventures SF I, LP. Matter Ventures, LLC is the general partner while KQED, Inc. and the Knight Foundation are founding limited partners, each making a capital commitment to invest \$1,250,000 for a 50% ownership interest in the partnership. The purpose of the partnership is to support and invest in media entrepreneurs to build ventures that make society more informed, connected and empowered. As of September 30, 2014, the entire commitment from the Corporation was paid in full. For the year ended September 30, 2015, the Corporation recognized its share of loss from the interest and impairment in Matter Ventures SF, I LP in the amount of \$300,000. The balance in Matter Ventures SF, I LLP at September 30, 2015 is \$200,000.

KQED Inc.

Notes to the Financial Statements

In November 2014, the Corporation made a capital commitment to invest \$750,000 to Matter Ventures Fund II, LP for a 13.66% ownership interest in the partnership. As of September 30, 2015, the Corporation has paid \$250,000 against its commitment. For the year ended September 30, 2015, the Corporation recognized its share of loss from the interest in Matter Ventures Fund, II LP in the amount of \$130,000. The balance in Matter Ventures SF, II LLP at September 30, 2015 is \$120,000.

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

October 1, 2014 – September 30, 2015	Endowment	Board Designated	Total
<u>Contributions invested</u>	<u>\$ 256,549</u>	<u>\$ 2,764,849</u>	<u>\$ 3,021,398</u>
Interest and dividends	\$ 820,384	\$ 1,055,929	\$ 1,876,313
Realized and unrealized net loss	(1,238,583)	(1,702,620)	(2,941,203)
Service fees	(121,220)	(155,372)	(276,592)
Total investment loss	(539,419)	(802,063)	(1,341,482)
<u>Income appropriated to operations</u>	<u>(1,157,598)</u>	<u>(1,158,851)</u>	<u>(2,316,449)</u>
<u>Total investment loss, net</u>	<u>\$ (1,697,017)</u>	<u>\$ (1,960,914)</u>	<u>\$ (3,657,931)</u>
October 1, 2013 – September 30, 2014	Endowment	Board Designated	Total
<u>Contributions invested</u>	<u>\$ 3,500</u>	<u>\$ 2,892,014</u>	<u>\$ 2,895,514</u>
Interest and dividends	\$ 656,733	\$ 763,293	\$ 1,420,026
Realized and unrealized net gains	1,599,347	1,814,210	3,413,557
Service fees	(127,738)	(148,218)	(275,956)
Total investment income	2,128,342	2,429,285	4,557,627
<u>Income appropriated to operations</u>	<u>(1,091,275)</u>	<u>(923,645)</u>	<u>(2,014,920)</u>
<u>Total investment income, net</u>	<u>\$ 1,037,067</u>	<u>\$ 1,505,640</u>	<u>\$ 2,542,707</u>

KQED Inc.

Notes to the Financial Statements

Note 4 - Fair Value of Financial Instruments:

The table below presents Corporation's assets measured at fair value, by category of risks, at September 30, 2015 on a recurring basis.

	2015	
	Level 1	Level 3
		Total
Investments:		
Cash and equivalents	\$ 109,335	\$ 109,335
Certificates of deposit	3,501,293	3,501,293
Mutual funds – equity:		
Domestic large company	15,520,488	15,520,488
International large company	7,602,340	7,602,340
Domestic small company	4,362,610	4,362,610
International small company	1,372,556	1,372,556
Emerging markets	2,869,287	2,869,287
Real estate investment trusts:		
Domestic	4,836,949	4,836,949
International	2,841,989	2,841,989
Mutual funds – bonds:		
Domestic	13,917,498	13,917,498
International	3,183,721	3,183,721
<hr/>		
Total	\$ 60,118,066	\$ 60,118,066
<hr/>		
Deferred Compensation Investments:		
Cash and equivalents	\$ 257,539	\$ 257,539
Certificates of deposit	79,922	79,922
Mutual funds – equity:		
Domestic large company	563,555	563,555
Domestic medium company	40,872	40,872
Domestic small company	42,883	42,883
International large company	60,616	60,616
Real estate	16,201	16,201
Mutual funds – bonds:		
Domestic	255,391	255,391
Exchange traded funds:		
Domestic small company	80,525	80,525
International large company	19,673	19,673
International real estate	18,490	18,490
Emerging markets	21,674	21,674
Stocks – domestic	8,191	8,191
<hr/>		
Total	\$ 1,465,532	\$ 1,465,532

KQED Inc.

Notes to the Financial Statements

	2015		Total
	Level 1	Level 3	
Charitable gift annuities and trusts:			
Cash and equivalents	\$ 81,951		\$ 81,951
U.S. Treasury notes	1,014,984		1,014,984
Mutual funds – equity:			
Domestic large company	1,117,153		1,117,153
International large company	507,782		507,782
Domestic small company	200,689		200,689
Emerging markets	186,004		186,004
International small company	78,051		78,051
Real estate investment trusts:			
Domestic	385,150		385,150
International	233,483		233,483
Mutual funds – bonds:			
Domestic	512,509		512,509
International	270,765		270,765
Split interest investment (non-trustee)		\$ 2,115,184	2,115,184
Total	\$ 4,588,521	\$ 2,115,184	\$ 6,703,705

The table below presents Corporation's assets measured at fair value, by category of risks, at September 30, 2014 on a recurring basis.

	2014		Total
	Level 1	Level 3	
Investments:			
Cash and equivalents	\$ 271,435		\$ 271,435
Certificates of deposit	3,498,649		3,498,649
Mutual funds – equity:			
Domestic large company	16,326,588		16,326,588
International large company	7,925,728		7,925,728
Domestic small company	4,430,757		4,430,757
International small company	1,399,658		1,399,658
Emerging markets	2,752,711		2,752,711
Real estate investment trusts:			
Domestic	4,578,502		4,578,502
International	2,824,102		2,824,102
Mutual funds – bonds:			
Domestic	13,744,455		13,744,455
International	2,999,370		2,999,370
Total	\$ 60,751,955		\$ 60,751,955

KQED Inc.

Notes to the Financial Statements

	2014		Total
	Level 1	Level 3	
Deferred Compensation Investments:			
Cash and equivalents	\$ 225,788		\$ 225,788
Certificates of deposit	39,536		39,536
Mutual funds – equity:			
Domestic large company	505,810		505,810
Domestic medium company	41,591		41,591
Domestic small company	70,989		70,989
International large company	69,555		69,555
Real estate	16,577		16,577
Mutual funds – bonds:			
Domestic	271,721		271,721
Exchange traded funds:			
Domestic small company	33,260		33,260
International real estate	19,463		19,463
Emerging markets	27,320		27,320
Total	\$ 1,321,610		\$ 1,321,610
Charitable gift annuities and trusts:			
Cash and equivalents	\$ 93,636		\$ 93,636
U.S. Treasury notes	1,008,739		1,008,739
Mutual funds – equity:			
Domestic large company	1,126,715		1,126,715
International large company	508,836		508,836
Domestic small company	188,059		188,059
Emerging markets	166,069		166,069
International small company	74,231		74,231
Real estate investment trusts:			
Domestic	358,584		358,584
International	221,483		221,483
Mutual funds – bonds:			
Domestic	459,975		459,975
International	282,513		282,513
Split interest investment (non-trustee)		\$ 2,175,066	2,175,066
Total	\$ 4,488,840	\$ 2,175,066	\$ 6,663,906

KQED Inc.

Notes to the Financial Statements

The following is a rollforward of the Level 3 assets:

	Split-interest investment (non-trustee)
Fair value at September 30, 2013	\$ 2,122,940
Change in value	52,126
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Fair value at September 30, 2014	2,175,066
Change in value	(59,882)
<hr/>	
Fair value at September 30, 2015	\$ 2,115,184

Other financial instruments

Financial instruments, which are included in the Corporation's Statement of Financial Position as of September 30, 2015 but not required to be measured at fair value, consist of cash and cash equivalents, receivables, accounts payable, and liabilities to beneficiaries of charitable gift annuities and trusts. Their carrying amounts, including the present value of future cash flows, represent a reasonable estimate of the corresponding fair values.

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, 2015 and 2014 was \$972,162 and \$893,867, 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, 2015 and 2014 was \$116,250 and \$108,750, respectively.

The Corporation reviewed these intangibles and determined that the estimated useful lives of 40 years used are appropriate as of September 30, 2015.

KQED Inc.

Notes to the Financial Statements

Note 6 - Property and Equipment:

Property and equipment at September 30, 2015 and 2014 consisted of the following:

	2015	2014
Land	\$ 1,269,691	\$ 1,269,691
Building and improvements	32,658,912	29,833,450
Furniture, fixtures, office equipment and vehicles	7,957,514	7,820,219
TV station equipment	31,788,318	33,915,497
Radio station equipment	4,350,348	4,465,854
Multiplatform equipment	1,425,272	-
Construction in progress	1,075,241	1,526,441
Total	80,525,296	78,831,152
Less accumulated depreciation	(43,465,749)	(43,238,743)
Property and equipment, net	\$ 37,059,547	\$ 35,592,409

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

Note 7 - Line of Credit:

The Corporation has a revolving line of credit in the amount of \$1,500,000 which expires on July 1, 2017. The line of credit contains certain covenants and is secured by the Corporation's accounts receivable and other rights to payment, general intangibles, inventory, and equipment and fixtures. The interest rate is based upon a fixed rate per year determined by the bank to be 2.00% above LIBOR in effect on the first day of each fixed rate term. The Corporation had no outstanding balance on the line of credit at September 30, 2015. As of September 30, 2015, the Corporation was in compliance with its covenants.

KQED Inc.

Notes to the Financial Statements

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 years ended September 30, 2015 and 2014:

	2015	2014
Opportunity and Innovation Fund	\$ 227,621	\$ 372,009
Campaign 21	4,307,080	1,219,068
	<hr/>	<hr/>
	4,534,701	1,591,077
Underwrite specific productions or areas of programming	2,534,719	2,104,593
Endowment earnings appropriated	1,157,598	1,091,275
Planned gifts	15,051	26,408
	<hr/>	<hr/>
	3,707,368	3,222,276
	<hr/>	<hr/>
Total	\$ 8,242,069	\$ 4,813,353

Temporarily restricted net asset balances were available for the following purposes as of September 30, 2015 and 2014:

	2015	2014
Campaign 21	\$ 8,988,799	\$ 4,234,710
Endowment earnings not yet spent	7,959,587	9,656,604
Planned gifts	4,129,194	4,017,505
Opportunity and Innovation Fund		227,621
Underwrite specific productions or areas of programming	1,416,210	717,883
	<hr/>	<hr/>
Total	\$ 22,493,790	\$ 18,854,323

KQED Inc.

Notes to the Financial Statements

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 in accordance with donor stipulations, to support programmatic or general 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, 2015 and 2014.

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.

KQED Inc.

Notes to the Financial Statements

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, 2015 are as follows:

	Unrestricted Funds	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds		\$ 7,959,587	\$ 16,064,793	\$ 24,024,380
Board-designated funds	\$ 32,592,393			32,592,393
Total endowment funds	\$ 32,592,393	\$ 7,959,587	\$ 16,064,793	\$ 56,616,773

The permanently restricted endowments funds exclude receivables of \$259,083 and \$464,333 as of September 30, 2015 and 2014, respectively.

KQED Inc.

Notes to the Financial Statements

Endowment activity by net asset classification as of September 30, 2015:

	Unrestricted Funds	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 31,788,458	\$ 9,656,604	\$ 15,808,244	\$ 57,253,306
Investment return:				
Interest and dividends	1,055,929	820,384		1,876,313
Realized and unrealized net loss	(1,857,992)	(1,359,803)		(3,217,795)
<hr/>				
Total investment loss (see Note 3)	(802,063)	(539,419)		(1,341,482)
<hr/>				
Contributions	2,764,849		256,549	3,021,398
Appropriation of endowment assets for expenditure	(1,158,851)	(1,157,598)		(2,316,449)
<hr/>				
Endowment net assets, end of year	\$ 32,592,393	\$ 7,959,587	\$ 16,064,793	\$ 56,616,773

Endowment activity by net asset classification as of September 30, 2014:

	Unrestricted Funds	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 27,390,804	\$ 8,619,537	\$ 15,804,744	\$ 51,815,085
Investment return:				
Interest and dividends	763,293	656,733		1,420,026
Realized and unrealized net gains	1,665,992	1,471,609		3,137,601
<hr/>				
Total investment income (see Note 3)	2,429,285	2,128,342		4,557,627
<hr/>				
Contributions	2,892,014		3,500	2,895,514
Appropriation of endowment assets for expenditure	(923,645)	(1,091,275)		(2,014,920)
<hr/>				
Endowment net assets, end of year	\$ 31,788,458	\$ 9,656,604	\$ 15,808,244	\$ 57,253,306

KQED Inc.

Notes to the Financial Statements

Note 10 - Commitments and Contingencies:

Leases

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 non-cancelable operating leases as of September 30, 2015:

September 30,	
2016	\$ 1,201,978
2017	1,069,892
2018	1,088,306
2019	1,107,257
2020	794,167
Thereafter	<u>2,737,282</u>
Total minimum rental payments	<u>\$ 7,998,882</u>

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 \$1,207,358 and \$1,161,761 for the years ended September 30, 2015 and 2014, respectively.

Other Commitments and Contingencies

As of September 30, 2015, the Corporation has contractual commitments of approximately \$1,076,000 related to acquisition of equipment and building construction.

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.

The Corporation derives a portion of its revenue from certain federally funded programs which are subject to review and audit by governmental agencies. Management believes that the Corporation is in material compliance with the standards set forth by the federal governmental agencies and that the outcome of reviews and audits conducted by such agencies, if any, will not have a significant effect on the financial position or results of activities of the Corporation.

KQED Inc.

Notes to the Financial Statements

Note 11 - Retirement Plans:

The 403(b) tax sheltered annuity plan is funded by employee contributions and the employer's matching share amount. The employer matching share amount is 5.5%. Contribution costs, funded currently, were approximately \$1,205,000 and \$1,031,000 for the years ended September 30, 2015 and 2014, respectively.

The Corporation has deferred compensation plans primarily for the purpose of providing deferred compensation for a select group of employees to accumulate retirement assets. The assets of the plans are under general control and available to general creditors of the Corporation and are included in the Statement of Financial Position.

The 457(b) plan enables participants to defer income on a pre-tax basis and is not matched with contributions from the Corporation. For both years ended September 30, 2015 and 2014, approximately \$139,000 has been deferred based on elections made by the participants to the 457(b) plan.

The 457(f) deferred compensation plan is funded by employer contributions. The contribution to the 457(f) plan was approximately \$40,000 for the years ended September 30, 2015 and 2014.

The total market value of 457(b) and 457(f) investments and the related deferred compensation obligations to employees included in the Statement of Financial Position at September 30, 2015 and 2014 were approximately \$1,466,000 and \$1,322,000, respectively.

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, 2015 and 2014, those contributions were approximately \$1,318,000 and \$1,826,000, respectively. As of September 30, 2015 and 2014, the balance due from related parties was approximately \$87,000 and \$1,063,000, respectively.