KQED INC.

SEPTEMBER 30, 2016

INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

KQED Inc.

Independent Auditors' Report
and Financial Statements

HOOD & STRONG LLP
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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, 2016, 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.

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

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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, 2016, 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, 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 8, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Hood & Strong LLP

San Francisco, California
December 5, 2016

KQED Inc.

Statement of Financial Position

September 30, 2016 (with comparative totals for 2015)	2016	2015
Assets		
Cash and cash equivalents	$ 6,075,962	$ 8,602,976
Restricted cash	10,188,830	10,012,554
Receivables, net	11,364,906	5,612,373
Prepaid expense and other assets	1,452,485	1,254,204
Investments	65,179,943	60,438,066
Deferred compensation investments	1,727,680	1,465,532
Charitable gift annuities and trusts	8,042,760	6,703,705
Intangible assets, net	2,257,591	2,343,386
Property and equipment, net	37,524,646	37,059,547
Total assets	$ 143,814,803	$ 133,492,343
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	$ 8,297,686	$ 8,430,457
Accrued broadcast rights	1,288,696	1,277,057
Deferred production and underwriting revenues	567,952	467,726
Deferred compensation obligations	1,727,680	1,465,532
Liabilities to beneficiaries of charitable gift annuities and trusts	3,480,416	2,445,428
Total liabilities	15,362,430	14,086,200
Net Assets:		
Unrestricted	83,635,639	80,588,477
Temporarily restricted	28,496,289	22,493,790
Permanently restricted	16,320,445	16,323,876
Total net assets	128,452,373	119,406,143
Total liabilities and net assets	$ 143,814,803	$ 133,492,343

See accompanying notes to financial statements.

KQED Inc.

Statement of Activities and Changes in Net Assets

Year Ended September 30, 2016 (with comparative totals for 2015)

	2016 Unrestricted	2016 Temporarily Restricted	2016 Permanently Restricted	2016 Total	2015 Total
Revenues, Support and Other Changes:					
Contributions and membership fees	$ 39,705,061			$ 39,705,061	$ 38,013,586
Underwriting and general grants	15,657,749			15,657,749	15,598,384
Project grants		$ 1,716,255		1,716,255	3,233,046
Community service grants	5,791,165			5,791,165	5,967,880
Bequests and trusts	2,122,141			2,122,141	2,081,941
Investment income appropriated from endowments	1,437,317	1,239,821		2,677,138	2,316,449
Government grants and other revenue	1,239,708			1,239,708	743,006
Trade and In-kind donations	2,002,989			2,002,989	2,091,164
Net assets released from restrictions	3,617,838	(3,617,838)		-	-
Total revenues, support and other changes	71,573,968	(661,762)	-	70,912,206	70,045,456
Expenses:					
Program services:					
Television:					
Programming and production	12,245,844			12,245,844	12,722,973
Broadcast services	5,904,778			5,904,778	6,029,285
Radio:					
Programming and production	5,476,579			5,476,579	5,231,382
Broadcast services	2,559,160			2,559,160	2,255,104
Multiplatform content	10,914,406			10,914,406	9,964,087
Media technology	1,383,571			1,383,571	1,172,294
Education network	824,591			824,591	942,380
Program promotion	3,563,172			3,563,172	3,320,580
Interactive	2,055,405			2,055,405	1,400,327
Total program services	44,927,506	-	-	44,927,506	43,038,412
Support services:					
Marketing and membership	13,665,992			13,665,992	14,058,091
General and administrative	9,306,161			9,306,161	9,017,044
Development	2,985,074			2,985,074	2,846,777
Total support services	25,957,227	-	-	25,957,227	25,921,912
Total expenses	70,884,733	-	-	70,884,733	68,960,324
Change in Net Assets Before Endowment, Opportunity and Innovation Fund and Campaign 21	689,235	(661,762)		27,473	1,085,132
Permanent Endowment, Charitable Gift Annuities and Trust Contributions		623,133	$ 18,402	641,535	430,537
Change in Value - Charitable Gift Annuities and Trusts		(190,262)	(21,833)	(212,095)	(252,498)
Investment Income (Loss) on Endowments, Net	1,888,323	1,147,058		3,035,381	(3,657,931)
Opportunity and Innovation Fund:					
Project expenses				-	(227,621)
Campaign 21:					
Support		11,810,390		11,810,390	9,061,169
Net assets released from restrictions	6,726,058	(6,726,058)		-	-
Project expenses	(5,263,075)			(5,263,075)	(2,613,242)
Support services:					
Marketing and membership	(227,380)			(227,380)	
General and administrative	(519,826)			(519,826)	(85,444)
Development	(246,173)			(246,173)	(239,788)
Change in Net Assets	3,047,162	6,002,499	(3,431)	9,046,230	3,500,314
Net Assets, beginning of year	80,588,477	22,493,790	16,323,876	119,406,143	115,905,829
Net Assets, end of year	$ 83,635,639	$ 28,496,289	$ 16,320,445	$ 128,452,373	$ 119,406,143

See accompanying notes to financial statements.

KQED Inc.

Statement of Cash Flows

Year Ended September 30, 2016 (with comparative totals for 2015)	2016	2015
Operating Activities:		
Change in net assets	$ 9,046,230	$ 3,500,314
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	4,707,061	4,163,362
Amortization of discount on long-term promises to give	(1,638)	(1,050)
Realized and unrealized net (gain) loss on investments	(4,305,343)	3,368,554
Bad debt expense and cancelled contracts	63,533	24,014
Loss on disposal of equipment	31,934	10,399
Permanent endowment contribution	(18,402)	(126,549)
Net effect of changes in:		
Receivables	(5,864,428)	1,076,708
Prepaid expense and other assets	(198,281)	(144,868)
Charitable gift annuities and trusts	14,538	(67,023)
Accounts payable, accrued expenses and other liabilities	1,167,910	(594,091)
Deferred production and underwriting revenues	100,226	(74,699)
Net cash provided by operating activities	4,743,340	11,135,071
Investing Activities:		
Purchases of investments	(10,467,097)	(9,842,300)
Proceeds from sales of investments	8,676,970	7,394,395
Proceeds from sale of equipment	10,000	19,110
Purchases of equipment	(5,382,353)	(6,208,074)
Net cash used in investing activities	(7,162,480)	(8,636,869)
Financing Activities:		
Permanent endowment contribution	68,402	256,549
Net cash provided by financing activities	68,402	256,549
Change in Cash, Cash Equivalents and Restricted Cash	(2,350,738)	2,754,751
Cash, Cash Equivalents and Restricted Cash:		
Beginning of year	18,615,530	15,860,779
End of year	$ 16,264,792	$ 18,615,530
Supplemental Data:		
Interest paid	$ 2,015	$ 2,957
Non-Cash Transactions:		
Equipment purchases included in payables at year end	$ 1,373,348	$ 1,627,402
Permanent endowment receivable	$ -	$ 10,000

See accompanying notes to 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.

e. Investments

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

Investments, except for 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, 2016 and 2015, future annuity payments due to beneficiaries of charitable gift annuities and trusts totaled $3,480,416 and $2,445,428, 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.

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 code requires that 50% of the reserve fund be invested in specified governmental fixed income investments. As of September 30, 2016, 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.

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, 2016, permanently restricted net assets include invested endowment funds of $16,133,195 and beneficiary interest in a charitable remainder annuity trust of $187,250.

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 $2,186,000 and $2,685,000 in the years ended September 30, 2016 and 2015, respectively, which includes the value of deminimus 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 $5,000 and $447,000 for the year ended September 30, 2016, respectively, and $4,000 and $522,000 for the year ended September 30, 2015, 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 $150,000 and $145,000 for the years ended September 30, 2016 and 2015, respectively.

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, 2016 and 2015, sponsorship barter transactions resulted in the recognition of approximately $1,544,000 and $1,566,000, respectively, in revenues and approximately $1,544,000 and $1,575,000, respectively, in expenses in the accompanying Statement of Activities and Changes in Net Assets.

o. Opportunity and Innovation Fund

The Opportunity and Innovation Fund provided the Corporation with the flexible working capital to respond to the quickly evolving opportunities of the digital media environment. The fund enabled the Corporation to start projects, conduct experiments, and begin initiatives in a timely way that was not currently possible and was critical to the 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 2016 and 2015, the Corporation received support of approximately $11,810,000 and $9,061,000, respectively. In addition, KQED received additional campaign commitments that will be recognized as revenue when all contingencies have been satisfied.

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

	2016	2015
Restricted cash	$ 9,210,476	$ 8,736,105
Receivables, net	4,862,655	252,694
Property and equipment, net	1,436,797	1,272,927
	$ 15,509,928	$ 10,261,726

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.

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, 2016. As of September 30, 2016, 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 40% of its full-time, part-time, and temporary staff: NABET (National Association of Broadcast Employees and Technicians) and SAG-AFTRA (Screen Actors Guild-American Federation of Television and Radio Artists). NABET's contract expired in October 2016. The parties have agreed to an extension of the contract and are currently negotiating a successor agreement. The contract between SAG-AFTRA and KQED-FM expires in September 2018.

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, 2015 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, 2015, from which the summarized financial information was derived.

w. Recent Accounting Pronouncements

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, 2018. The Corporation is evaluating the impact this update will have on its financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The amendments in this update will supersede much of the existing authoritative guidance for leases. This guidance requires lessees, among other things, to recognize right-of-use assets and liabilities on their balance sheet for all leases with lease terms longer than twelve months. The amendments in the update are effective for fiscal years beginning after December 15, 2019 with early application permitted. The Corporation is currently evaluating the impact of this pronouncement on its financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this update make improvements to the information provided in financial statements and accompanying notes of not-for-profit entities. The amendments set forth the FASB's improvements to net asset classification requirements and the information presented about a not-for-profit entity's liquidity, financial performance, and cash flows. The amendments in the update are effective for annual financial statements issued for fiscal years beginning after December 15, 2017 with early application permitted. Amendments should be applied on a retrospective basis in the year the update is first applied. The Corporation is currently evaluating the impact of this pronouncement on its financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The amendments in this update address diversity in practice that exists in the classification and presentation of changes in restricted cash on the statement of cash flows. The amendments require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The amendments in the update are effective for fiscal years beginning after December 15, 2019 with early application permitted. The Corporation is currently evaluating the impact of this pronouncement on its financial statements.

x. Subsequent Events

The Corporation evaluated subsequent events from September 30, 2016 through December 5, 2016, the date these financial statements were available to be issued. In October 2016, KQED received notice from the Bernard Osher Foundation of an endowment grant of $2,000,000 to be received in early 2017 for the "Osher Production Fund", a permanently endowed fund. The earnings generated by the Osher Foundation Fund will support the production of content created by KQED.

Note 2 - Receivables:

At September 30, 2016, receivables consist of the following:

	Accounts and Contributions Receivable	Grants and Underwriting Receivable	Campaign 21 Receivable	Total
Amounts due in:				
One year or less	$ 3,797,961	$ 2,912,405	$ 1,505,200	$ 8,215,566
Two to four years (net of discount of $29,745)			3,357,455	3,357,455
Less: allowance for doubtful accounts	(58,115)	(150,000)		(208,115)
Total	$ 3,739,846	$ 2,762,405	$ 4,862,655	$ 11,364,906

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

Note 3 - Investments:

The Corporation's investments were composed of the following at September 30, 2016:

	Operating	Endowment	Board Designated	Total
Certificates of deposit	$ 3,502,344			$ 3,502,344
Mutual funds - equity		$ 17,910,310	$ 25,546,039	43,456,349
Mutual funds - bonds		7,268,620	10,244,452	17,513,072
Cash and money market funds		60,910	197,268	258,178
Limited partnership interest	450,000			450,000
Total	$ 3,952,344	$ 25,239,840	$ 35,987,759	$ 65,179,943

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

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. The balance in Matter Ventures SF, I LLP at September 30, 2016 is $200,000.

In November 2014, the Corporation made a capital commitment to invest $750,000 in Matter Ventures Fund II, LP for a 13.66% ownership interest in the partnership. As of September 30, 2016, the Corporation has paid $500,000 against its commitment. For the year ended September 30, 2016, the Corporation recognized its share of loss from the interest in Matter Ventures Fund, II LP in the amount of $120,000. The balance in Matter Ventures SF, II LLP at September 30, 2016 is $250,000.

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

October 1, 2015 – September 30, 2016	Endowment	Board Designated	Total
Contributions invested	$ 68,402	$ 1,507,043	$ 1,575,445
Interest and dividends	$ 652,757	$ 905,120	$ 1,557,877
Realized and unrealized net gain	1,846,792	2,576,206	4,422,998
Service fees	(112,670)	(155,686)	(268,356)
Total investment gain	2,386,879	3,325,640	5,712,519
Income appropriated to operations	(1,239,821)	(1,437,317)	(2,677,138)
Total investment gain, net	$ 1,147,058	$ 1,888,323	$ 3,035,381

October 1, 2014 – September 30, 2015	Endowment	Board Designated	Total
Contributions invested	$ 256,549	$ 2,764,849	$ 3,021,398
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)
Income appropriated to operations	(1,157,598)	(1,158,851)	(2,316,449)
Total investment loss, net	$ (1,697,017)	$ (1,960,914)	$ (3,657,931)

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, 2016 on a recurring basis.

	2016		
	Level 1	Level 3	Total
Investments:			
Cash and equivalents	$ 258,177		$ 258,177
Certificates of deposit	3,502,344		3,502,344
Mutual funds – equity:			
Domestic large company	17,167,063		17,167,063
International large company	8,527,602		8,527,602
Domestic small company	4,938,042		4,938,042
International small company	1,515,299		1,515,299
Emerging markets	3,376,867		3,376,867
Real estate investment trusts:			
Domestic	4,892,731		4,892,731
International	3,038,745		3,038,745
Mutual funds – bonds:			
Domestic	14,372,821		14,372,821
International	3,140,252		3,140,252
Total	$ 64,729,943		$ 64,729,943
Deferred Compensation Investments:			
Cash and equivalents	$ 285,622		$ 285,622
Certificates of deposit	121,486		121,486
Mutual funds – equity:			
Domestic large company	690,264		690,264
Domestic medium company	41,741		41,741
Domestic small company	46,216		46,216
International large company	65,017		65,017
Real estate	19,153		19,153
Mutual funds – bonds:			
Domestic	278,115		278,115
Exchange traded funds:			
Domestic large company	31,090		31,090
Domestic small company	54,098		54,098
International large company	41,544		41,544
International real estate	19,604		19,604
Emerging markets	24,648		24,648
Stocks – domestic	9,082		9,082
Total	$ 1,727,680		$ 1,727,680

	2016 Level 1	2016 Level 3	2016 Total
Charitable gift annuities and trusts:			
Cash and equivalents	$ 142,616		$ 142,616
U.S. Treasury notes	1,647,145		1,647,145
Mutual funds – equity:			
Domestic large company	1,385,224		1,385,224
International large company	651,578		651,578
Domestic small company	266,291		266,291
Emerging markets	243,487		243,487
International small company	100,251		100,251
Real estate investment trusts:			
Domestic	435,413		435,413
International	275,667		275,667
Mutual funds – bonds:			
Domestic	606,252		606,252
International	345,145		345,145
Split interest investment (non-trustee)		$ 1,943,691	1,943,691
Total	$ 6,099,069	$ 1,943,691	$ 8,042,760

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	2015 Level 3	2015 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
Total	$ 60,118,066		$ 60,118,066

KQED Inc.

Notes to the Financial Statements

	2015		
	Level 1	Level 3	Total
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 large company	27,228		27,228
Domestic small company	53,297		53,297
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
Total	$ 1,465,532		$ 1,465,532
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 following is a rollforward of the Level 3 assets:

	Split-interest investment (non-trustee)
Fair value at September 30, 2014	$ 2,175,066
Change in value	(59,882)
Fair value at September 30, 2015	2,115,184
Change in value	(171,493)
Fair value at September 30, 2016	$ 1,943,691

Other financial instruments

Financial instruments, which are included in the Corporation's Statement of Financial Position as of September 30, 2016 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, 2016 and 2015 was $1,050,457 and $972,162, 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, 2016 and 2015 was $123,750 and $116,250, respectively.

The Corporation reviewed intangible assets and determined that the estimated useful lives of 40 years used are appropriate as of September 30, 2016.

Note 6 - Property and Equipment:

Property and equipment at September 30, 2016 and 2015 consisted of the following:

	2016	2015
Land	$ 1,269,691	$ 1,269,691
Building and improvements	34,151,192	32,658,912
Furniture, fixtures, office equipment and vehicles	8,809,970	7,957,514
TV station equipment	32,061,717	31,788,318
Radio station equipment	5,829,387	4,350,348
Multiplatform equipment	1,671,832	1,425,272
Construction in progress	188,524	1,075,241
Total	83,982,313	80,525,296
Less accumulated depreciation	(46,457,667)	(43,465,749)
Property and equipment, net	$ 37,524,646	$ 37,059,547

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, 2016. As of September 30, 2016, the Corporation was in compliance with its covenants.

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, 2016 and 2015:

	2016	2015
Campaign 21	$ 6,726,058	$ 4,307,080
Opportunity and Innovation Fund		227,621
	6,726,058	4,534,701
Underwrite specific productions or areas of programming	2,191,047	2,534,719
Endowment earnings appropriated	1,239,821	1,157,598
Planned gifts	186,970	15,051
	3,617,838	3,707,368
Total	$ 10,343,896	$ 8,242,069

Temporarily restricted net asset balances were available for the following purposes as of September 30, 2016 and 2015:

	2016	2015
Campaign 21	$ 14,073,131	$ 8,988,799
Endowment earnings not yet spent	9,106,645	7,959,587
Planned gifts	4,375,095	4,129,194
Underwrite specific productions or areas of programming	941,418	1,416,210
Total	$ 28,496,289	$ 22,493,790

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, 2016 and 2015.

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 invested, as of September 30, 2016 are as follows:

	Unrestricted Funds	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds		$ 9,106,645	$ 16,133,195	$ 25,239,840
Board-designated funds	$ 35,987,759			35,987,759
Total endowment funds	$ 35,987,759	$ 9,106,645	$ 16,133,195	$ 61,227,599

The permanently restricted endowments funds exclude receivables of $187,250 and $259,083 as of September 30, 2016 and 2015, respectively.

Endowment activity by net asset classification as of September 30, 2016:

	Unrestricted Funds	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 32,592,393	$ 7,959,587	$ 16,064,793	$ 56,616,773
Investment return:				
Interest and dividends	905,120	652,757		1,557,877
Realized and unrealized net gain	2,420,520	1,734,122		4,154,642
Total investment gain (see Note 3)	3,325,640	2,386,879		5,712,519
Contributions transferred	1,507,043		68,402	1,575,445
Appropriation of endowment assets for expenditure	(1,437,317)	(1,239,821)		(2,677,138)
Endowment net assets, end of year	$ 35,987,759	$ 9,106,645	$ 16,133,195	$ 61,227,599

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)
Total investment loss (see Note 3)	(802,063)	(539,419)		(1,341,482)
Contributions transferred	2,764,849		256,549	3,021,398
Appropriation of endowment assets for expenditure	(1,158,851)	(1,157,598)		(2,316,449)
Endowment net assets, end of year	$ 32,592,393	$ 7,959,587	$ 16,064,793	$ 56,616,773

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, 2016:

September 30,	
2017	$ 1,367,556
2018	1,383,510
2019	1,416,299
2020	1,102,753
2021	859,037
Thereafter	2,081,954
Total minimum rental payments	$ 8,211,109

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 $1,284,385 and $1,207,358 for the years ended September 30, 2016 and 2015, respectively.

Other Commitments and Contingencies

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.

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 $1,316,000 and $1,205,000 for the years ended September 30, 2016 and 2015, 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 the years ended September 30, 2016 and 2015, approximately $85,000 and $139,000, respectively, 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, 2016 and 2015.

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, 2016 and 2015 were approximately $1,728,000 and $1,466,000, 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, 2016 and 2015, those contributions were approximately $1,673,000 and $1,318,000, respectively. As of September 30, 2016 and 2015, the balance due from related parties was approximately $30,000 and $87,000, respectively.