

Financial Statements and Report of
Independent Certified Public
Accountants

KQED Inc.

September 30, 2020 (with summarized financial
information for September 30, 2019)

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
KQED Inc.

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, 2020, and the related statements of activities and changes in net assets, cash flows, and functional expenses 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.

Auditor's 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 Corporation'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 Corporation'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.

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, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other matters*Report on 2019 summarized comparative information*

We have previously audited KQED Inc.'s 2019 financial statements (not presented herein), and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 30, 2019. In our opinion, the accompanying summarized comparative information as of and for the year ended September 30, 2019 is consistent, in all material respects, with the audited financial statements from which it has been derived.



San Francisco, California
December 22, 2020

KQED Inc.

STATEMENT OF FINANCIAL POSITION

September 30, 2020 and 2019

	2020	2019
ASSETS		
Cash and cash equivalents	\$ 55,684,472	\$ 17,383,229
Restricted cash and cash equivalents	13,339,445	17,936,662
Receivables, net	19,306,796	18,965,842
Prepaid expense and other assets	3,830,680	2,854,545
Investments	125,397,904	172,834,499
Deferred compensation cash equivalents and investments	2,234,423	2,431,077
Charitable gift annuities and trusts	8,126,640	8,103,021
Intangible assets, net	1,914,134	2,000,207
Property and equipment, net	75,002,701	36,009,991
Total assets	<u>\$ 304,837,195</u>	<u>\$ 278,519,073</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 14,959,811	\$ 6,719,237
Accrued payroll and vacation	6,626,608	5,774,616
Broadcast rights liability	1,499,253	1,527,995
Deferred production and underwriting revenues	711,772	426,684
Loan and interest payable	8,153,815	-
Deferred rent liability	266,290	405,464
Deferred compensation obligations	2,234,423	2,431,077
Liabilities to beneficiaries of charitable gift annuities and trusts	3,973,922	4,087,407
Total liabilities	<u>38,425,894</u>	<u>21,372,480</u>
NET ASSETS		
Without donor restrictions	195,463,490	187,048,430
With donor restrictions	70,947,811	70,098,163
Total net assets	<u>266,411,301</u>	<u>257,146,593</u>
Total liabilities and net assets	<u>\$ 304,837,195</u>	<u>\$ 278,519,073</u>

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

KQED Inc.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year ended September 30, 2020 (with summarized financial information for September 30, 2019)

	2020			
	Net assets without donor restrictions	Net assets with donor restrictions	2020 Total	2019 Total
Revenues, support and other changes:				
Contributions and membership fees	\$ 56,068,998	\$ -	\$ 56,068,998	\$ 49,104,160
Underwriting and general grants	13,762,241	-	13,762,241	17,153,324
Project grants	-	4,738,214	4,738,214	3,396,341
Community service grants	6,033,057	568,730	6,601,787	6,884,533
Investment income appropriated from endowments	4,448,243	1,468,439	5,916,682	4,440,172
Other revenue	1,444,448	-	1,444,448	2,624,728
Trade and in-kind donations	972,214	-	972,214	1,408,484
Net assets released from restrictions	7,069,039	(7,069,039)	-	-
Total revenues, support and other changes	89,798,240	(293,656)	89,504,584	85,011,742
Expenses:				
Program services:				
Television:				
Programming and production	9,919,659	-	9,919,659	12,085,422
Broadcast services	6,002,487	-	6,002,487	5,578,879
Radio:				
Programming and production	5,895,081	-	5,895,081	5,833,354
Broadcast services	3,089,664	-	3,089,664	2,992,768
Multiplatform content	21,187,581	-	21,187,581	17,091,513
Education network	2,579,282	-	2,579,282	2,184,694
Program promotion	3,274,641	-	3,274,641	3,372,437
Digital	4,340,949	-	4,340,949	3,032,502
Events	559,932	-	559,932	6,568
Total program services	56,849,276	-	56,849,276	52,178,137
Support services:				
Fundraising	18,045,292	-	18,045,292	18,725,325
General and administrative	11,325,015	-	11,325,015	12,625,245
Total support services	29,370,307	-	29,370,307	31,350,570
Total expenses	86,219,583	-	86,219,583	83,528,707
Changes in net assets from operations	3,578,657	(293,656)	3,285,001	1,483,035
Bequests and trusts	6,135,805	-	6,135,805	4,118,253
Donor-restricted endowment, charitable gift annuities and trust contributions	-	196,443	196,443	187,414
Change in value - charitable gift annuities and trusts	-	30,211	30,211	20,793
Investment income on endowments, net	(1,632,713)	(190,874)	(1,823,587)	2,140,387
Campaign 21:				
Revenue and support	-	7,800,277	7,800,277	28,193,352
Net assets released from restrictions	6,692,753	(6,692,753)	-	-
Program services	(4,068,934)	-	(4,068,934)	(4,281,098)
Support services:				
Fundraising	(1,527,903)	-	(1,527,903)	(1,278,067)
General and administrative	(762,605)	-	(762,605)	(1,497,765)
Changes in net assets	8,415,060	849,648	9,264,708	29,086,304
Net assets, beginning of year	187,048,430	70,098,163	257,146,593	228,060,289
Net assets, end of year	\$ 195,463,490	\$ 70,947,811	\$ 266,411,301	\$ 257,146,593

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

KQED Inc.

STATEMENT OF CASH FLOWS

Years ended September 30, 2020 and 2019

	2020	2019
Operating activities:		
Changes in net assets	\$ 9,264,708	\$ 29,086,304
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	6,492,856	5,708,703
Amortization of discount on long-term promises to give	(3,023)	(108,353)
Realized and unrealized net gain on investments	(36,936)	(2,726,729)
Bad debt expense and cancelled contracts	223,985	186,513
Interest on loan payable	36,915	-
Loss on disposal of equipment	3,632	623,772
Contributions restricted for investment in perpetuity	(75,625)	(110,300)
Contributions restricted for purchase of property and equipment	(833,500)	(22,007,580)
Net effect of changes in:		
Receivables	(311,916)	(54,146)
Prepaid expenses and other assets	(976,135)	(1,047,964)
Charitable gift annuities and trusts	224,202	(134,893)
Accounts payable, accrued expenses and other liabilities	1,522,994	513,449
Deferred production and underwriting revenues	285,088	89,057
Net cash provided by operating activities	15,817,245	10,017,833
Investing activities:		
Purchases of investments	(26,435,332)	(25,988,252)
Proceeds from sales of investments	73,661,042	20,479,523
Purchases of property and equipment	(38,114,954)	(14,251,469)
Net cash provided by (used in) investing activities	9,110,756	(19,760,198)
Financing activities:		
Contributions restricted for purchase of property and equipment	583,500	12,100,809
Proceeds from loan payable	8,116,900	-
Contributions restricted for investment in perpetuity	75,625	590,300
Net cash provided by financing activities	8,776,025	12,691,109
Change in cash, cash equivalents and restricted cash:	33,704,026	2,948,744
Beginning of year	35,319,891	32,371,147
End of year	\$ 69,023,917	\$ 35,319,891
Supplemental data:		
Non-cash transactions:		
Equipment purchases included in payables at year end	\$ 11,798,149	\$ 4,509,978
Assets acquired under capital lease	\$ -	\$ 97,559
Receivables donor-restricted for purchase of property and equipment	\$ 250,000	\$ 9,906,771

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

KQED Inc.

STATEMENT OF FUNCTIONAL EXPENSES

Year ended September 30, 2020 (with summarized financial information for September 30, 2019)

	Program Activities					Supporting Activities			2020 Total Expenses	2019 Total Expenses
	TV	FM	Multiplatform	Other Programs	Programs Subtotal	Fundraising	General and Administrative	Supporting Subtotal		
Salaries and benefits	\$ 4,543,979	\$ 2,476,040	\$ 19,417,024	\$ 6,365,204	\$ 32,802,247	\$ 9,887,759	\$ 9,299,980	\$ 19,187,739	\$ 51,989,986	\$ 49,647,340
Office and occupancy	1,261,927	1,364,400	2,822,128	632,501	6,080,956	3,206,008	748,823	3,954,831	10,035,787	10,016,055
Dues and program acquisition	6,241,847	3,529,560	107,615	60,011	9,939,033	32,279	85,133	117,412	10,056,445	9,929,684
Information technologies	870,745	108,984	389,128	344,941	1,713,798	489,771	310,844	800,615	2,514,413	2,179,015
Membership and donor premiums	-	-	-	-	-	1,393,234	14	1,393,248	1,393,248	1,799,650
Professional services	51,705	34,675	716,479	1,348,080	2,150,939	2,676,663	660,371	3,337,034	5,487,973	4,888,469
Other services	492,113	54,605	25,615	142,004	714,337	209,587	72,670	282,257	996,594	1,052,003
Trade and in-kind expenses	-	-	171,442	715,550	886,992	87,706	-	87,706	974,698	1,408,234
Travel and conferences	12,252	7,945	190,570	22,351	233,118	38,872	26,164	65,036	298,154	654,610
Depreciation and amortization	2,267,408	1,344,646	1,025,785	674,488	5,312,327	519,061	661,468	1,180,529	6,492,856	5,708,703
Insurance	64,395	28,616	68,307	40,637	201,955	41,583	71,967	113,550	315,505	269,649
Advertising	36,483	-	68,154	397,440	502,077	90,295	11,425	101,720	603,797	654,404
Rights and royalties	31,464	-	62,935	5,402	99,801	30	-	30	99,831	123,102
Other expenses	47,828	34,942	190,709	6,195	279,674	898,487	123,603	1,022,090	1,301,764	1,459,524
Taxes and licenses	-	332	624	-	956	1,860	11,526	13,386	14,342	171,423
Loss on disposal of assets	-	-	-	-	-	-	3,632	3,632	3,632	623,772
	<u>\$ 15,922,146</u>	<u>\$ 8,984,745</u>	<u>\$ 25,256,515</u>	<u>\$ 10,754,804</u>	<u>\$ 60,918,210</u>	<u>\$ 19,573,195</u>	<u>\$ 12,087,620</u>	<u>\$ 31,660,815</u>	<u>\$ 92,579,025</u>	<u>\$ 90,585,637</u>

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

NOTES TO FINANCIAL STATEMENTS

September 30, 2020 and 2019

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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. The Corporation's television, radio, digital media and educational services seek to change lives for the better and help individuals and communities achieve their full potential. The Corporation 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. The Corporation's 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. The Corporation celebrates diversity, embraces innovation, values lifelong learning, and partners with those who share a commitment to public service.

Basis of Presentation

The Corporation's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which requires the Corporation to report information regarding its financial position and activities according to the following net asset classifications:

Net Assets without Donor Restrictions

Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Corporation. These net assets may be used at the discretion of the Corporation's management and the Board of Directors ("Board").

Net Assets with Donor Restrictions

Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Corporation or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities and changes in net assets.

Cash, Cash Equivalents and Restricted Cash

The Corporation's cash consists of cash on deposit with banks. The Corporation considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. Restricted cash and cash equivalents include funds restricted by various funders and donors for specific projects, capital purchases and operating periods, as well as deferred obligations for underwriting.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2020 and 2019

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-adjusted 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.

The Corporation uses a fulfillment rate to record membership receivables. The fulfillment rate is based on historical experience and is evaluated periodically based on current market conditions.

Investments

The Corporation's investments consist of stocks, bonds, mutual funds, certificates of deposit, U.S. Treasury bills, cash and money market funds, and a limited partnership.

Investments, except for the investment in a limited partnership, 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 within net asset categories in accordance with donor stipulations.

The Corporation holds a significant ownership interest in a limited partnership and accounts for this investment under the equity method. Under the equity method of accounting, the financial statements of the limited partnership are not consolidated with the Corporation's financial statements; however, the Corporation's share of the earnings or losses of the limited partnership is reflected in other revenues in the statement of activities and changes in net assets. The Corporation's carrying value of the investment in the limited partnership is included in investments as reflected in the statement of financial position (see Note D).

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. For the years ended September 30, 2020 and 2019, contribution income for charitable gift annuities and trusts were \$196,423 and \$77,114, respectively. 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 0.4% 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 restricted during the life of the donor unless the donor has restricted the use of the remainder interest to be held in perpetuity. 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, 2020 and 2019, future annuity payments due to beneficiaries of charitable gift annuities and trusts totaled \$3,973,922 and \$4,087,407, respectively, on the accompanying statement of financial position.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2020 and 2019

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 law requires that 50% of the reserve fund be invested in specified governmental fixed income investments. As of September 30, 2020, the Corporation had sufficient funds in its reserve fund to meet the Code requirements and those funds were invested in accordance with the Code.

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.

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 2 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.

The Corporation has embarked on a major renovation of its headquarters at 2601 Mariposa Street, San Francisco, California. The redesigned building is the essential next step in the Corporation's transformation to meet the changing needs of the community now, and for generations to come. The new building will showcase the Corporation's inclusive, community-minded and ambitious vision for the future of public media.

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.

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 net assets without donor restrictions when committed as they relate to current year's operations. Premium costs offered to members as thank-you gifts or appreciation are recorded as fundraising expenses in the statement of activities and changes in net assets and approximated \$1,393,000 and \$1,800,000 for the years ended September 30, 2020 and 2019, respectively, which includes the value of de minimis premium items.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2020 and 2019

Corporate underwriting support is recognized as net assets without donor restrictions 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 production and underwriting revenues in the statement of financial position.

The Corporation reports gifts of cash and other assets as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported as net assets released from restrictions.

Contributions restricted for the purchase of long-lived assets are reported as increases in net assets with donor restrictions when received or unconditionally pledged. The Corporation's policy is to release the capital contributions into net assets without donor restrictions once the acquired long-lived assets are placed into service.

Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

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 primarily consist of donated goods. The estimated fair value of these donations approximated \$297,000 and \$543,000 for the years ended September 30, 2020 and 2019, respectively, and is reflected in the accompanying statement of activities and changes in net assets.

Nonmonetary Transactions

The Corporation has transactions involving the exchange of sponsorship rights for goods and services. These transactions are recorded based on the fair value of the goods and services received. For the years ended September 30, 2020 and 2019, sponsorship barter transactions resulted in the recognition of approximately \$678,000 and \$865,000, respectively, in revenues and approximately \$678,000 and \$865,000, respectively, in expenses in the accompanying statement of activities and changes in net assets.

Campaign 21

There is a transformation in the media industry due to the digital revolution. To compete in this new age, the Corporation 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. As part of this transformation, the Corporation is also embarking upon the renovation of its headquarters. A portion of funds raised through Campaign 21 will be used to assist in this project.

For the years ended September 30, 2020 and 2019, the Corporation received support of approximately \$7,800,000 and \$28,193,000, respectively.

Advertising Expenses

The costs of advertising are expensed as incurred. Advertising expense was approximately \$604,000 and \$654,000 for the years ended September 30, 2020 and 2019, respectively.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2020 and 2019

Income Taxes

The Corporation follows guidance that clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This guidance provides that the tax effects from an uncertain tax position can only be recognized in the financial statements if the position is "more-likely-than-not" to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged.

The Corporation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code ("IRC"), though it is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the IRC. The Corporation has also been recognized by the Franchise Tax Board as an organization that is exempt from income tax pursuant to California Revenue and Tax Code Section 23701d on its income other than unrelated business income. The Corporation has processes presently in place to ensure the maintenance of its tax-exempt status, to identify and report unrelated income, to determine its filing and tax obligations in jurisdictions for which it has nexus, and to identify and evaluate other matters that may be considered tax positions. The Corporation has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements.

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.

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.

One donor comprised 52% and 53% of the receivables balance as of September 30, 2020 and 2019, respectively.

As of September 30, 2020, the Corporation's cash, cash equivalents and investments were in excess of the federal depository and securities investor protection corporation insurance limits.

Collective Bargaining Agreements

The Corporation has two union collective bargaining agreements which cover approximately 37% of its full-time, part-time and temporary staff. The National Association of Broadcast Employees and Technicians ("NABET") union contract expires in October 2021. The contract between the Screen Actors Guild - American Federation of Television and Radio Artists ("SAG-AFTRA") and KQED-FM expires in September 2022.

The Corporation also has a basic minimum agreement with SAG-AFTRA covering performers appearing on KQED-TV, which expires in December 2020. In December 2020, this agreement was extended through May 31, 2021. Additionally, the Corporation is a signatory to the SAG-AFTRA Public Television Agreement which covers performers who appear on television programs distributed nationally. That agreement has

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2020 and 2019

expired, and the Public Broadcasting Service ("PBS") and producing stations, including the Corporation, are currently in discussions with SAG-AFTRA on a renewal.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP 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.

Comparative Financial Information

The financial statements include certain summarized comparative information as of and for the year ended September 30, 2019 presented in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Corporation's financial statements for the year ended September 30, 2019, from which the summarized financial information was derived.

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

New Accounting Pronouncements

During the year ended September 30, 2020, the Corporation adopted the requirements of the Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2018-08 - *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* on a modified prospective basis. The update clarifies and improves the scope and accounting guidance around contributions of cash and other assets received and made by not-for-profit organizations ("NFP"s) and business enterprises. The ASU clarifies and improves current guidance about whether a transfer of assets, or the reduction, settlement, or cancellation of liabilities, is a contribution or an exchange transaction. It provides criteria for determining whether the resource provider is receiving commensurate value in return for the resources transferred which, depending on the outcome, determines whether the organization follows contribution guidance or exchange transaction guidance in the revenue recognition and other applicable standards.

The Corporation evaluates all contributions received against this guidance to determine whether they are non-reciprocal contributions or exchange transactions, and whether a contribution is conditional.

The Corporation has determined grants from governmental agencies to be conditional grants and not exchange transactions. The adoption of this policy did not result in a change in the total revenue recognized in the current year or in the prior year.

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 Corporation has adopted this standard for the year ended September 30, 2020.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2020 and 2019

Recent Accounting Pronouncements

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.

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 12 months.

In June 2020, the FASB issued ASU 2020-05 - *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities*, which deferred the implementation date of ASU 2014-09 to fiscal years beginning after December 15, 2019 and ASU 2016-02 to fiscal years beginning after December 15, 2021 for private not-for-profit entities, with early application permitted.

In August 2018, the FASB issued ASU 2018-15 - *Intangibles - Goodwill and Other - Internal-Use Software (Topic 350)*. The amendments in this update align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The amendments in the update are effective for fiscal years beginning after December 15, 2020 with early application permitted.

The Corporation is currently evaluating the impact of these pronouncements on its financial statements.

Subsequent Events

The Corporation evaluated subsequent events from September 30, 2020 through December 22, 2020, the date these financial statements were available to be issued. The Corporation concluded that no material subsequent events have occurred since September 30, 2020 that require recognition or disclosure in such financial statements.

NOTE B - AVAILABILITY AND LIQUIDITY

The Corporation has an operating reserve that had a balance of \$13,831,000 and \$16,826,000 as of September 30, 2020 and 2019, respectively. The purpose of the account is to establish a reserve to be used to fund day-to-day operations of the Corporation in the event of a downturn of expected revenue or short-term cash need. The operating reserve is a target balance of 12.5% of operating revenue, which was determined based on management's judgment about the appropriate amount of funds to have set aside in addition to working capital. The operating reserve funds are held in money market funds and certificate of deposits. The operating reserve balance is included in the cash and cash equivalents and investments lines on the statement of financial position.

In the event of an unanticipated liquidity need, the Corporation could also draw upon a \$5,000,000 available line of credit (See Note J).

KQED Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2020 and 2019

The following reflects the Corporation's financial assets as of September 30, reduced by amounts not available for general use within one year of the balance sheet date because of contractual or donor-imposed restrictions or internal designations.

	2020	2019
Cash and cash equivalents	\$ 55,684,472	\$ 17,383,229
Restricted cash and cash equivalents	13,339,445	17,936,662
Receivables	19,306,796	18,965,842
Investments	125,397,904	172,834,499
Deferred compensation investments	2,234,423	2,431,077
Charitable gifts and annuities and trusts	8,126,640	8,103,021
Financial assets as of September 30	224,089,680	237,654,330
Amounts not due within one year	(5,882,961)	(6,079,740)
Contractual or donor-imposed restrictions:		
Amounts subject to donor restrictions	(20,249,445)	(24,510,996)
Donor-restricted endowment funds	(31,169,898)	(31,360,752)
Funds restricted by lender	(58,241,059)	(49,944,098)
Investments held in deferred compensation investments	(2,234,423)	(2,431,077)
Investments held in charitable gift annuities and trusts	(8,126,640)	(8,103,021)
Board designations:		
Board-designated endowment funds for long term sustainability	(39,351,591)	(75,998,886)
Amounts set aside for operating and building reserve	(31,027,646)	(27,204,023)
Endowment investments available for general purposes and for distribution in accord with the Corporation spending policy	7,205,664	5,916,682
Net assets with purpose restrictions to be met in less than a year	12,897,906	10,536,547
Financial assets available to meet cash needs for general expenditures within one year	\$ 47,909,587	\$ 28,474,966

KQED Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2020 and 2019

NOTE C - RECEIVABLES

At September 30, 2020, receivables consist of the following:

	Accounts and contributions receivable	Grants and underwriting receivable	Campaign 21 receivable	Total
Amounts due in:				
One year or less	\$ 4,781,666	\$ 2,138,616	\$ 6,660,000	\$ 13,580,282
Two or three years (net of discount of \$99,079)	97,040	-	5,785,921	5,882,961
Less: allowance for doubtful accounts	(6,308)	(150,139)	-	(156,447)
Total	<u>\$ 4,872,398</u>	<u>\$ 1,988,477</u>	<u>\$ 12,445,921</u>	<u>\$ 19,306,796</u>

At September 30, 2019, receivables consist of the following:

	Accounts and contributions receivable	Grants and underwriting receivable	Campaign 21 receivable	Total
Amounts due in:				
One year or less	\$ 2,975,727	\$ 3,467,110	\$ 6,574,334	\$ 13,017,171
Two or three years (net of discount of \$188,557)	760,214	-	5,319,526	6,079,740
Less: allowance for doubtful accounts	(5,108)	(125,961)	-	(131,069)
Total	<u>\$ 3,730,833</u>	<u>\$ 3,341,149</u>	<u>\$ 11,893,860</u>	<u>\$ 18,965,842</u>

NOTE D - INVESTMENTS

The Corporation's investments were composed of the following at September 30, 2020:

	Operating	Endowment	Board- designated endowment	Total
Cash and cash equivalents	\$ -	\$ 69,979	\$ 233,536	\$ 303,515
Certificates of deposit	9,752,257	-	-	9,752,257
Mutual funds - equity	-	22,298,400	48,317,537	70,615,937
Mutual funds - bonds	-	8,801,519	35,924,676	44,726,195
Total	<u>\$ 9,752,257</u>	<u>\$ 31,169,898</u>	<u>\$ 84,475,749</u>	<u>\$ 125,397,904</u>

KQED Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2020 and 2019

The Corporation's investments were composed of the following at September 30, 2019:

	Operating	Endowment	Board-designated endowment	Total
Cash and cash equivalents	\$ -	\$ 92,840	\$ 203,477	\$ 296,317
Certificates of deposit	12,014,532	-	-	12,014,532
Mutual funds - equity	-	22,182,282	75,995,370	98,177,652
Mutual funds - bonds	9,466,230	9,085,630	43,744,138	62,295,998
Limited partnership interest	50,000	-	-	50,000
Total	\$ 21,530,762	\$ 31,360,752	\$ 119,942,985	\$ 172,834,499

Spectrum Auction

As part of the Federal Communications Commission ("FCC") spectrum auction conducted during the 2017 fiscal year, the Corporation received a one-time non-recurring cash infusion of \$95,459,109. Participation in the auction allowed the Corporation to repurpose under-utilized broadcast spectrum, which is much in demand by wireless service providers. This action did not have a material impact upon services or coverage for Bay Area residents, as most households receive their television via cable or satellite services and not over airwaves. Digital (as opposed to analog) broadcast technology also supports the ability to relinquish six megahertz of broadcast spectrum without significant impacts to service.

The Corporation's Board of Directors approved the transaction and, acknowledging the historic long-term nature of the assets that generated these proceeds, designated the funds to be invested as follows:

Spectrum endowment fund	\$ 67,459,109
Building fund	20,000,000
Reserve fund	8,000,000
	<u>\$ 95,459,109</u>

Investment in Limited Partnership

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

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. The purpose of the partnership is to support and invest in media entrepreneurs to build ventures that make society more informed, connected and empowered. In December 2017, the Corporation entered into an agreement to increase its capital commitment by \$500,000 for an additional 0.24% ownership interest. As of September 30, 2018, the entire \$1,250,000 commitment from the Corporation was paid in full. For the year ended September 30, 2020, the Corporation recognized its share of loss from the interest in Matter Ventures Fund, II LP in the amount of \$50,000. The balance in Matter Ventures SF, II LLP at September 30, 2020 is \$0.

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

KQED Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2020 and 2019

	Endowment	Board-designated endowment	Total
October 1, 2019 - September 30, 2020			
Contributions invested	\$ 20	\$ 5,309,570	\$ 5,309,590
Interest and dividends	\$ 929,996	\$ 3,485,537	\$ 4,415,533
Realized and unrealized net gain (loss)	418,399	(395,155)	23,244
Service fees	(70,830)	(274,852)	(345,682)
Total investment gain	1,277,565	2,815,530	4,093,095
Income appropriated to operations	(1,468,439)	(4,448,243)	(5,916,682)
Total investment loss, net	\$ (190,874)	\$ (1,632,713)	\$ (1,823,587)
October 1, 2018 - September 30, 2019			
Contributions invested	\$ 590,300	\$ 3,484,154	\$ 4,074,454
Interest and dividends	\$ 803,112	\$ 3,123,694	\$ 3,926,806
Realized and unrealized net gain	631,757	2,363,929	2,995,686
Service fees	(70,839)	(271,094)	(341,933)
Total investment gain	1,364,030	5,216,529	6,580,559
Income appropriated to operations	(1,369,705)	(3,070,467)	(4,440,172)
Total investment gain (loss), net	\$ (5,675)	\$ 2,146,062	\$ 2,140,387

KQED Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2020 and 2019

NOTE E - FAIR VALUE OF FINANCIAL INSTRUMENTS

The table below presents the Corporation's assets measured at fair value, by category of risks, at September 30, 2020 on a recurring basis.

	2020			
	Level 1	Level 2	Level 3	Total
Investments:				
Certificates of deposit	\$ -	\$4,752,257	\$ -	\$ 4,752,257
Mutual funds - equity:				
Domestic large company	26,093,828	-	-	26,093,828
International large company	13,911,164	-	-	13,911,164
Domestic small company	7,851,222	-	-	7,851,222
International small company	2,484,025	-	-	2,484,025
Emerging markets	5,564,988	-	-	5,564,988
Real estate investment trusts:				
Domestic	9,746,446	-	-	9,746,446
International	4,964,264	-	-	4,964,264
Mutual funds - bonds:				
Domestic	39,598,323	-	-	39,598,323
International	5,127,872	-	-	5,127,872
Subtotal investments	<u>\$115,342,132</u>	<u>\$4,752,257</u>	<u>\$ -</u>	120,094,389
Cash and cash equivalents				303,515
Certificate of deposit (non-investment security)				<u>5,000,000</u>
Total				<u>\$125,397,904</u>

KQED Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2020 and 2019

	2020			
	Level 1	Level 2	Level 3	Total
Deferred compensation investments:				
Mutual funds - equity:				
Domestic large company	\$ 1,102,179	\$ -	\$ -	\$ 1,102,179
Domestic medium company	37,892	-	-	37,892
Domestic small company	58,351	-	-	58,351
International large company	47,212	-	-	47,212
Mutual funds - bonds:				
Domestic	253,162	-	-	253,162
Exchange traded funds:				
Domestic large company	34,222	-	-	34,222
Domestic small company	63,818	-	-	63,818
International large company	56,471	-	-	56,471
International small company	32,152	-	-	32,152
Emerging markets	8,648	-	-	8,648
U.S Treasury Notes	153,476			153,476
Stocks - domestic	21,233	-	-	21,233
Subtotal deferred compensation investments	\$ 1,868,816	\$ -	\$ -	1,868,816
Cash and cash equivalents				365,607
Total				<u>\$ 2,234,423</u>

KQED Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2020 and 2019

	2020			
	Level 1	Level 2	Level 3	Total
Charitable gift annuities and trusts:				
U.S. Treasury notes	\$ 1,344,752	\$ -	\$ -	\$ 1,344,752
Mutual funds - equity:				
Domestic large company	1,819,116	-	-	1,819,116
International large company	941,454	-	-	941,454
Domestic small company	396,919	-	-	396,919
International small company	142,080	-	-	142,080
Emerging markets	353,628	-	-	353,628
Real estate investment trusts:				
Domestic	749,162	-	-	749,162
International	378,560	-	-	378,560
Mutual funds - bonds:				
Domestic	840,533	-	-	840,533
International	500,097	-	-	500,097
Split interest investment (non-trustee)	-	-	489,882	489,882
Subtotal charitable gift annuities and trusts investments	\$ 7,466,301	\$ -	\$ 489,882	7,956,183
Cash and cash equivalents				170,457
Total				<u>\$ 8,126,640</u>

KQED Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2020 and 2019

The table below presents the Corporation's assets measured at fair value, by category of risks, at September 30, 2019 on a recurring basis.

	2019			
	Level 1	Level 2	Level 3	Total
Investments:				
Certificates of deposit	\$ -	\$ 6,014,532	\$ -	\$ 6,014,532
Mutual funds - equity:				
Domestic large company	35,934,695	-	-	35,934,695
International large company	19,130,957	-	-	19,130,957
Domestic small company	10,904,034	-	-	10,904,034
International small company	3,394,900	-	-	3,394,900
Emerging markets	7,417,998	-	-	7,417,998
Real estate investment trusts:				
Domestic	14,438,480	-	-	14,438,480
International	6,956,588	-	-	6,956,588
Mutual funds - bonds:				
Domestic	52,005,016	-	-	52,005,016
International	10,290,982	-	-	10,290,982
Subtotal investments	<u>\$160,473,650</u>	<u>\$ 6,014,532</u>	<u>\$ -</u>	166,488,182
Cash and cash equivalents				296,317
Certificate of deposit (non-investment security)				<u>6,000,000</u>
Total				<u>\$172,784,499</u>

KQED Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2020 and 2019

	2019			
	Level 1	Level 2	Level 3	Total
Deferred compensation investments:				
Certificates of deposit	\$ -	\$ 370,346	\$ -	\$ 370,346
Mutual funds - equity:				
Domestic large company	1,029,222	-	-	1,029,222
Domestic medium company	65,402	-	-	65,402
Domestic small company	49,768	-	-	49,768
International large company	43,715	-	-	43,715
Real estate	23,347	-	-	23,347
Mutual funds - bonds:				
Domestic	315,293	-	-	315,293
Exchange traded funds:				
Domestic large company	44,916	-	-	44,916
Domestic small company	68,366	-	-	68,366
International large company	94,661	-	-	94,661
International small company	34,797	-	-	34,797
International real estate	12,370	-	-	12,370
Emerging markets	17,352	-	-	17,352
Stocks - domestic	15,552	-	-	15,552
Subtotal deferred compensation investments	\$ 1,814,761	\$ 370,346	\$ -	2,185,107
Cash and cash equivalents				245,970
Total				<u>\$ 2,431,077</u>

KQED Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2020 and 2019

	2019			
	Level 1	Level 2	Level 3	Total
Charitable gift annuities and trusts:				
U.S. Treasury notes	\$ 1,123,701	\$ -	\$ -	\$ 1,123,701
Mutual funds - equity:				
Domestic large company	1,794,424	-	-	1,794,424
International large company	925,253	-	-	925,253
Domestic small company	401,590	-	-	401,590
International small company	141,097	-	-	141,097
Emerging markets	342,858	-	-	342,858
Real estate investment trusts:				
Domestic	779,344	-	-	779,344
International	383,638	-	-	383,638
Mutual funds - bonds:				
Domestic	1,098,586	-	-	1,098,586
International	476,775	-	-	476,775
Split interest investment (non-trustee)	-	-	488,168	488,168
Subtotal charitable gift annuities and trusts investments	\$ 7,467,266	\$ -	\$ 488,168	7,955,434
Cash and cash equivalents				147,587
Total				<u>\$ 8,103,021</u>

The following is a rollforward of the Level 3 assets:

	Split-interest investment (non-trustee)
Fair value at September 30, 2018	\$ 488,131
Change in value	<u>37</u>
Fair value at September 30, 2019	488,168
Change in value	<u>1,714</u>
Fair value at September 30, 2020	<u>\$ 489,882</u>

Other Financial Instruments

Financial instruments, which are included in the Corporation's statement of financial position as of September 30, 2020 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.

KQED Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2020 and 2019

NOTE F - 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, 2020 and 2019 was \$1,363,915 and \$1,285,342, 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, 2020 and 2019 was \$153,750 and \$146,250, respectively.

The Corporation reviewed intangible assets and determined that the estimated useful lives of 40 years used are appropriate as of September 30, 2020.

The following is a schedule of expected amortization expense for the succeeding five years and thereafter:

September 30,	
2021	\$ 85,795
2022	85,795
2023	85,795
2024	85,795
2025	85,795
Thereafter	<u>1,485,159</u>
Total	<u>\$ 1,914,134</u>

NOTE G - PROPERTY AND EQUIPMENT

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

	2020	2019
Land	\$ 1,269,691	\$ 1,269,691
Building and improvements	18,375,262	18,355,960
Furniture, fixtures, office equipment and vehicles	11,560,071	8,516,787
TV station equipment	22,480,662	19,148,377
Radio station equipment	7,926,165	6,832,419
Multiplatform equipment	1,944,396	1,944,396
Less accumulated depreciation	<u>(34,391,323)</u>	<u>(28,001,891)</u>
Total	29,164,924	28,065,739
Construction in progress	<u>45,837,777</u>	<u>7,944,252</u>
Property and equipment, net	<u>\$ 75,002,701</u>	<u>\$ 36,009,991</u>

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2020 and 2019

Depreciation expense was \$6,406,783 and \$5,622,908 for the years ended September 30, 2020 and 2019, respectively.

NOTE H - LOAN PAYABLE

The Corporation was granted a loan (the "Loan") from Community Reinvestment Fund, Inc. in the aggregate amount of \$8,116,900, pursuant to the Paycheck Protection Program (the "PPP") under the Coronavirus Aid, Relief and Economic Security Act ("CARES Act").

The Loan, dated April 17, 2020, matures on April 17, 2022 and bears interest at a rate of 1% per annum. Accrued interest for the year ended September 30, 2020 was \$36,915. Funds from the Loan may only be used for payroll costs, costs used to continue group health care benefits, mortgage payments, rent, utilities, and interest on other debt obligations incurred before October 4, 2020. The Company has used the entire Loan amount for qualifying expenses. Under the terms of the PPP, certain amounts of the Loan may be forgiven if certain criteria are met.

On October 22, 2020, the Corporation applied for full forgiveness of the Loan.

NOTE I - IRREVOCABLE STANDBY LETTER OF CREDIT

The Corporation has signed a sublease for temporary office space. Under the terms of this lease, the Corporation provided the sublessor an irrevocable standby letter of credit in the amount of \$241,140 as a security deposit.

NOTE J - LINE OF CREDIT

The Corporation has a revolving construction line of credit, in the amount of \$35,000,000 which expires on December 1, 2023. The line of credit contains certain covenants and is secured by a portion of the Corporation's Spectrum endowment which must be at least \$35,000,000. The interest rate is based upon the one-month London Interbank Offered Rate ("LIBOR") Index rate plus 0.50%.

The Corporation has a revolving operating line of credit, in the amount of \$5,000,000 which expires on September 30, 2021. The line of credit contains certain covenants and is secured by a \$5,000,000 certificate of deposit. The interest rate is based upon the average of the twelve most recently published monthly yields on the United States Treasury securities adjusted to a constant maturity of one year.

The Corporation had no outstanding balances on the lines of credit at September 30, 2020.

KQED Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2020 and 2019

NOTE K - NET ASSETS

Net assets without donor restrictions for the years ended September 30 are as follows:

	2020	2019
Undesignated	\$ 74,960,094	\$ 33,901,422
Board-designated		
Board-designated endowment	29,005,349	48,188,882
Spectrum endowment	53,306,186	54,999,041
Liquidity endowment	2,164,214	16,755,062
Reserve fund	13,831,463	16,826,000
Building fund	22,196,184	16,378,023
Total Board-designated	120,503,396	153,147,008
Total net assets without donor restrictions	\$ 195,463,490	\$ 187,048,430

Net assets with donor restrictions were available with the following restrictions as of September 30:

	2020	2019
Campaign 21 (restricted for purpose and time)	\$ 14,098,447	\$ 11,590,499
Building renovation (restricted for purpose)	19,842,984	21,243,408
Planned gifts (restricted for time)	4,152,718	4,015,616
Underwrite specific productions or areas of programming (restricted for purpose and time)	1,683,764	1,887,888
Investment in perpetuity (including amounts above original gift amount of \$19,786,115, and \$19,786,094, as of September 30, 2020 and 2019, respectively), which, once appropriated, is expendable to support:		
Arts	2,885,295	2,912,623
Education	115,635	116,359
Science	1,020,679	1,028,656
General production of content	2,312,101	2,333,416
General operations	24,836,188	24,969,698
Total net assets with donor restrictions	\$ 70,947,811	\$ 70,098,163

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:

	2020	2019
Campaign 21	\$ 4,458,829	\$ 4,952,894
Building renovation	2,233,924	764,172
Underwrite specific productions or areas of programming	5,511,070	2,870,813
Endowment earnings appropriated	1,468,439	1,369,705
Planned gifts	89,530	41,273
Total	\$ 13,761,792	\$ 9,998,857

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2020 and 2019

NOTE L - 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 net assets with donor restrictions (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. Amounts are appropriated for expenditure by the Corporation 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, and (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, 2020 and 2019.

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.

KQED Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2020 and 2019

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, are as follows:

	2020		
	Without donor restrictions	With donor restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 31,169,898	\$ 31,169,898
Board-designated endowment	29,005,349	-	29,005,349
Spectrum auction endowment	53,306,186	-	53,306,186
Liquidity endowment fund	2,164,214	-	2,164,214
Total endowment funds	<u>\$ 84,475,749</u>	<u>\$ 31,169,898</u>	<u>\$ 115,645,647</u>
	2019		
	Without donor restrictions	With donor restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 31,360,752	\$ 31,360,752
Board-designated endowment	48,188,882	-	48,188,882
Spectrum auction endowment	54,999,041	-	54,999,041
Liquidity endowment fund	16,755,062	-	16,755,062
Total endowment funds	<u>\$ 119,942,985</u>	<u>\$ 31,360,752</u>	<u>\$ 151,303,737</u>

The spectrum auction endowment fund was established with the intent that the spectrum auction proceeds be maintained to benefit the community and the Corporation over the long term.

The donor-restricted endowment's funds exclude receivables of \$74,115 and \$60,517 as of September 30, 2020 and 2019, respectively.

KQED Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2020 and 2019

Endowment activity by net asset classification as of September 30, 2020:

	Without donor restrictions	With donor restrictions	Total
Endowment net assets, beginning of year	\$ 119,942,985	\$ 31,360,752	\$ 151,303,737
Investment return:			
Interest and dividends	3,485,537	929,996	4,415,533
Realized and unrealized net gain (loss)	(395,155)	418,399	23,244
Service fees	(274,852)	(70,830)	(345,682)
Total investment gain (see Note D)	2,815,530	1,277,565	4,093,095
Contributions	5,309,570	20	5,309,590
Assets designated by the Board for property and equipment	(39,144,093)	-	(39,144,093)
Appropriation of endowment assets for expenditure	(4,448,243)	(1,468,439)	(5,916,682)
Endowment net assets, end of year	\$ 84,475,749	\$ 31,169,898	\$ 115,645,647

Endowment activity by net asset classification as of September 30, 2019:

	Without donor restrictions	With donor restrictions	Total
Endowment net assets, beginning of year	\$ 117,820,316	\$ 30,776,127	\$ 148,596,443
Investment return:			
Interest and dividends	3,123,694	803,112	3,926,806
Realized and unrealized net gain	2,363,929	631,757	2,995,686
Service fees	(271,094)	(70,839)	(341,933)
Total investment gain (see Note D)	5,216,529	1,364,030	6,580,559
Contributions	3,484,154	590,300	4,074,454
Assets designated by the Board for property and equipment	(3,507,547)	-	(3,507,547)
Appropriation of endowment assets for expenditure	(3,070,467)	(1,369,705)	(4,440,172)
Endowment net assets, end of year	\$ 119,942,985	\$ 31,360,752	\$ 151,303,737

KQED Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2020 and 2019

NOTE M - CAMPAIGN 21

Campaign 21 assets included in the statement of financial position consist of the following:

	2020	2019
Restricted cash	\$ 11,809,297	\$ 15,982,679
Receivables, net	12,445,921	11,893,860
Total Campaign 21 assets	<u>\$ 24,255,218</u>	<u>\$ 27,876,539</u>

Campaign 21 program services comprised of expenses for the following programs for the years ended September 30:

	2020	2019
Multiplatform content	\$ 1,412,820	\$ 1,728,774
Building project	2,035,838	991,157
Education	360,487	788,510
Innovation lab	181,623	365,905
Media technology	78,166	406,752
Total Campaign 21 program services expense	<u>\$ 4,068,934</u>	<u>\$ 4,281,098</u>

NOTE N - COMMITMENTS AND CONTINGENCIES

Leases

The Corporation leases real estate property in connection with its 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, 2020:

September 30,	
2021	\$ 4,449,512
2022	1,817,938
2023	1,375,526
2024	1,416,595
2025	509,549
Thereafter	<u>895,807</u>
Total minimum rental payments	<u>\$ 10,464,927</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 \$4,444,958 and \$2,886,441 for the years ended September 30, 2020 and 2019, respectively.

Other Commitments and Contingencies

As of September 30, 2020, the Corporation has remaining contractual commitments of approximately \$32,893,000 related to construction contracts for the renovation of its headquarters.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2020 and 2019

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.

COVID-19

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus (the "COVID-19 outbreak") and the risks to the international community as the virus spread globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic. The Corporation saw a reduction in underwriting revenue, due to a decline in demand for on-air sponsorships. To address this decline, management identified cost saving measures across the Corporation. Revenue within all other major categories remained stable through fiscal year-end. The full impact of the COVID-19 outbreak to the Corporation is uncertain and will depend on the duration and depth of the pandemic. Management is actively monitoring the impact on its financial condition, liquidity, operations, and workforce.

NOTE O - CONDITIONAL PROMISES TO GIVE

The Corporation received two grants from governmental agencies which have been determined to be conditional grants based on the amount of project expenses incurred each year, plus a percentage for overhead. Total cumulative governmental grants awarded to the Corporation as of September 30, 2020 was \$2,841,108. For the years ended September 30, 2020 and 2019, the Corporation has recognized \$1,244,964 and \$653,793, respectively. As of September 30, 2020, \$942,351 remains conditional. The conditions are expected to be met in the next fiscal year.

The Corporation received grants from multiple funders which have been determined to be conditional grants based on the meeting specific program deliverables. Total cumulative grants awarded to the Corporation as of September 30, 2020 was \$1,159,782. For the years ended September 30, 2020 and 2019, the Corporation has recognized \$175,000 and \$342,500, respectively. As of September 30, 2020, \$642,282 remains conditional. The conditions are expected to be met in the next one to two years.

The Corporation receives cash payments in advance from donors to be used as challenge grants. For the years ended September 30, 2020 and 2019, the amount of payments for which conditions have not been met was \$335,097 and \$105,469, respectively. The conditions are expected to be met in the next fiscal year.

NOTE P - 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%. In May 2020, the Corporation reduced the employer matching share to 3%. Contribution costs, funded currently, were approximately \$1,417,098 and \$1,614,784 for the years ended September 30, 2020 and 2019, respectively. Effective October 1, 2020, the Corporation eliminated the employer matching share amount.

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.

KQED Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2020 and 2019

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, 2020 and 2019, approximately \$124,000 and \$119,000, 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. For the years ended September 30, 2020 and 2019, contributions to the 457(f) plan was approximately \$0 and \$80,000, respectively.

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, 2020 and 2019 were approximately \$2,234,000 and \$2,431,000, respectively.

NOTE Q - 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, 2020 and 2019, those contributions were approximately \$3,806,444 and \$2,284,000, respectively. As of September 30, 2020 and 2019, the balance due from related parties was approximately \$60,000 and \$473,000, respectively.