

Consolidated Financial Statements and Report of Independent Certified Public Accountants

KQED Inc.

September 30, 2023 (with summarized financial
information for September 30, 2022)

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
KQED Inc.

Opinion

We have audited the accompanying consolidated financial statements of KQED Inc. (the "Corporation"), which comprise the consolidated statement of financial position as of September 30, 2023, and the related consolidated statements of activities and changes in net assets, cash flows and functional expenses for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of KQED Inc. as of September 30, 2023 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.

Basis for opinion

We conducted our audit of the consolidated financial statements in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Corporation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of matter

As discussed in Note A to the consolidated financial statements, the Corporation adopted FASB Accounting Standard Codification Topic 842, Leases. Our opinion is not modified with respect to this matter.

Responsibilities of management for the financial statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for one year after the date the consolidated financial statements are issued.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other matters*Report on 2022 summarized comparative information*

We have previously audited the Corporation's 2022 financial statements (not presented herein), and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 10, 2023. In our opinion, the accompanying summarized comparative information as of and for the year ended September 30, 2022 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Grant Thornton LLP

San Francisco, California
February 12, 2024

KQED Inc.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

September 30,
(in thousands)

	2023	2022
ASSETS		
Cash and cash equivalents	\$ 22,109	\$ 29,503
Restricted cash and cash equivalents	5,842	7,172
Receivables, net	16,284	16,785
Prepaid expense and other assets	3,546	3,067
Operating lease right-of-use asset	3,483	-
Investments	155,773	126,801
Deferred compensation cash equivalents and investments	2,288	2,101
Charitable gift annuities and trusts	11,969	10,971
Intangible assets, net	2,142	1,742
Goodwill	1,097	-
Property and equipment, net	106,039	112,125
Total assets	\$ 330,572	\$ 310,267
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 2,670	\$ 4,327
Accrued payroll and vacation	8,325	8,273
Broadcast rights liability	1,446	2,624
Deferred production and underwriting revenues	1,177	854
Deferred rent liability	-	334
Operating lease liability	3,776	-
Deferred compensation obligations	2,288	2,101
Liabilities to beneficiaries of charitable gift annuities and trusts	5,715	5,353
Total liabilities	25,397	23,866
Net assets		
Without donor restrictions	258,769	239,687
With donor restrictions	46,406	46,714
Total net assets	305,175	286,401
Total liabilities and net assets	\$ 330,572	\$ 310,267

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

KQED Inc.

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year ended September 30, 2023 (with summarized financial information for September 30, 2022)

(in thousands)

	2023		2023 Total	2022 Total
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions		
Revenues, support and other changes				
Individual member contributions	\$ 53,318	\$ 16	\$ 53,334	\$ 53,302
Underwriting	12,570	-	12,570	13,294
General and project grants	693	3,252	3,945	8,469
Community service grants	6,300	536	6,836	6,728
Investment income appropriated from endowments	4,906	1,675	6,581	6,913
Other revenue	3,314	-	3,314	1,249
Contributions of non financial assets	3,682	-	3,682	3,641
Trade revenue	105	-	105	453
Net assets released from restrictions	6,961	(6,961)	-	-
Total revenues, support and other changes	91,849	(1,482)	90,367	94,049
Expenses				
Program services				
Television				
Programming and production	11,173	-	11,173	12,605
Broadcast services	7,262	-	7,262	6,994
Radio				
Programming and production	5,776	-	5,776	5,801
Broadcast services	3,511	-	3,511	3,452
Multiplatform content	26,500	-	26,500	25,102
Education	2,498	-	2,498	2,316
Program promotion	3,215	-	3,215	2,637
Digital	5,502	-	5,502	5,273
Events	1,488	-	1,488	1,192
Total program services	66,925	-	66,925	65,372
Support services				
Fundraising	19,415	-	19,415	19,171
General and administrative	14,630	-	14,630	12,411
Total support services	34,045	-	34,045	31,582
Total expenses	100,970	-	100,970	96,954
Changes in net assets from operations	(9,121)	(1,482)	(10,603)	(2,905)
Endowment and planned giving				
Bequests and trusts	25,281	-	25,281	12,069
Fundraising	(2,221)	-	(2,221)	-
Donor-restricted endowment, charitable gift annuities and trust contributions	-	674	674	1,497
Change in value - charitable gift annuities and trusts	-	539	539	(1,744)
Investment income (loss) on endowments, net	5,155	1,755	6,910	(31,746)
Changes in net assets from endowment and planned giving	28,215	2,968	31,183	(19,924)
Campaign 21				
Revenue and support	-	611	611	3,238
Net assets released from restrictions	2,405	(2,405)	-	-
Program services	(1,893)	-	(1,893)	(2,907)
Support services				
Fundraising	(405)	-	(405)	(1,032)
General and administrative	(119)	-	(119)	(457)
Changes in net assets from Campaign 21	(12)	(1,794)	(1,806)	(1,158)
TOTAL CHANGES IN NET ASSETS	19,082	(308)	18,774	(23,987)
Net assets, beginning of year	239,687	46,714	286,401	310,388
Net assets, end of year	\$ 258,769	\$ 46,406	\$ 305,175	\$ 286,401

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

KQED Inc.

CONSOLIDATED STATEMENT OF CASH FLOWS

September 30,
(in thousands)

	2023	2022
Cash flows from operating activities:		
Changes in net assets	\$ 18,774	\$ (23,987)
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	6,953	10,069
Amortization of discount on long-term promises to give	(3)	(5)
Realized and unrealized net (gain) loss on investments	(10,083)	27,844
Change in value of charitable gift annuities and trusts	(539)	1,744
Bad debt expense and cancelled contracts	23	408
Loss on disposal of equipment	875	-
Contributions restricted for investment in perpetuity	-	(107)
Contributions restricted for purchase of property and equipment	(600)	(64)
Net effect of changes in:		
Receivables	360	(7,106)
Prepaid expenses and other assets	112	609
Charitable gift annuities and trusts	492	1,298
Operating lease right-of-use assets and liabilities	293	-
Accounts payable, accrued expenses and other liabilities	(1,721)	2,330
Deferred production and underwriting revenues	(581)	(1,838)
Net cash provided by operating activities	<u>14,355</u>	<u>11,195</u>
Cash flows from investing activities:		
Purchases of investments	(54,970)	(49,791)
Acquisition of a business	(1,344)	-
Proceeds from sales of investments	35,130	32,715
Purchases of property and equipment	(2,676)	(12,979)
Net cash used in investing activities	<u>(23,860)</u>	<u>(30,055)</u>
Cash flows from financing activities:		
Contributions restricted for purchase of property and equipment	550	5,314
Contributions restricted for investment in perpetuity	231	14
Net cash provided by financing activities	<u>781</u>	<u>5,328</u>
CHANGE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	<u>(8,724)</u>	<u>(13,532)</u>
Beginning of year	<u>36,675</u>	<u>50,207</u>
End of year	<u>\$ 27,951</u>	<u>\$ 36,675</u>
Supplemental data:		
Non-cash transactions:		
Equipment purchases included in payables at year end	\$ 593	\$ 1,627
Receivable restricted for investment in perpetuity	231	93
Right-of-use assets obtained in exchange for operating lease liabilities	4,923	-

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

KQED Inc.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year ended September 30, 2023 (with summarized financial information for September 30, 2022)
(in thousands)

	Program Activities				Programs Subtotal	Supporting Activities			2023 Total Expenses	2022 Total Expenses
	TV	Radio	Multiplatform	Other Programs		Fundraising	General and Administrative	Supporting Subtotal		
Salaries and benefits	\$ 5,099	\$ 2,518	\$ 22,021	\$ 7,550	\$ 37,188	\$ 10,768	\$ 10,724	\$ 21,492	\$ 58,680	\$ 53,303
Office and occupancy	1,442	1,365	2,072	674	5,553	5,039	933	5,972	11,525	11,226
Dues and program acquisition	6,768	3,991	42	73	10,874	13	73	86	10,960	11,453
Information technologies	1,003	331	952	596	2,882	781	607	1,388	4,270	3,782
Membership and donor premiums	-	-	1	10	11	278	1	279	290	1,278
Professional services	43	18	1,528	1,827	3,416	2,978	1,092	4,070	7,486	5,602
Other services	591	102	68	32	793	224	85	309	1,102	1,099
Trade and in-kind expenses	-	-	-	82	82	28	-	28	110	538
Travel and conferences	9	2	213	47	271	46	19	65	336	319
Depreciation and amortization	3,038	608	994	1,023	5,663	516	774	1,290	6,953	10,069
Insurance	46	26	141	68	281	61	72	133	414	375
Advertising	18	-	54	652	724	369	5	374	1,098	761
Rights and royalties	5	-	114	4	123	-	-	-	123	138
Other expenses	38	30	129	25	222	900	203	1,103	1,325	1,368
Taxes and licenses	-	1	-	2	3	8	51	59	62	39
Loss on disposal of assets	335	295	64	38	732	32	110	142	874	-
	<u>\$ 18,435</u>	<u>\$ 9,287</u>	<u>\$ 28,393</u>	<u>\$ 12,703</u>	<u>\$ 68,818</u>	<u>\$ 22,041</u>	<u>\$ 14,749</u>	<u>\$ 36,790</u>	<u>\$ 105,608</u>	<u>\$ 101,350</u>

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

KQED Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2023 and 2022

(in thousands unless otherwise indicated)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

KQED Inc. (“KQED”) is a nonprofit corporation which operates three noncommercial public television stations (“KQED-TV,” “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. KQED also distributes its content and services via KQED.org, KQEDNews.org, and KQED Education as well as other digital and mobile media technology.

KQED 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’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. KQED celebrates diversity, embraces innovation, values lifelong learning, and partners with those who share a commitment to public service.

Snap Studios, LLC, (“Snap”) is a separate organization, disregarded for tax purposes, and wholly owned subsidiary of KQED. Snap is a radio show, podcast, and live show producer and creator. Snap produces real stories combined with beats to create cinematic and dramatic radio.

In July 2023, KQED and Snap acquired certain assets and liabilities from a third party, Snap Judgment, LLC. The acquisition brings new audiences, followers, and monthly downloads from podcasts. The acquisition allows for creation of new podcasts and additional fundraising.

Principles of Consolidation

The consolidated financial statements include the accounts of KQED and Snap because KQED has both control and an economic interest in Snap. All significant intercompany accounts and transactions have been eliminated in consolidation. Unless otherwise noted, these consolidated entities are hereinafter referred to as “the Corporation”.

Basis of Presentation

The Corporation’s consolidated 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

KQED Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

September 30, 2023 and 2022

(in thousands unless otherwise indicated)

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 consolidated statement of activities and changes in net assets.

Comparative Financial Information

The consolidated financial statements include certain summarized comparative information as of and for the year ended September 30, 2022 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, 2022, from which the summarized financial information was derived.

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.

Receivables

The Corporation's accounts and contributions receivable consist primarily of amounts due from general members, planned giving, individual donors and advertising trades. Grants and underwriting receivables consist of amounts due from foundations and corporate sponsors. Receivables due in more than one year 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 bonds, mutual funds, certificates of deposit, U.S. Treasury bills and notes, and cash and money market funds.

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

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

KQED Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

September 30, 2023 and 2022

(in thousands unless otherwise indicated)

contribution income at the fair value of the assets in the trust less an annuity reserve. For the years ended September 30, 2023 and 2022, contribution income for charitable gift annuities and trusts were \$0.4 million and \$1.4 million, 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, 2023 and 2022, future annuity payments due to beneficiaries of charitable gift annuities and trusts totaled \$5.7 million and \$5.4 million, respectively, on the accompanying consolidated 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 law requires that 50% of the reserve fund be invested in specified governmental fixed income investments. As of September 30, 2023, 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 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.

The Corporation has completed a major renovation of its headquarters at 2601 Mariposa Street, San Francisco, California. The redesigned building is essential to meet the changing needs of the community now, and for generations to come. The renovated building showcases the Corporation's inclusive, community-minded and ambitious vision for the future of public media.

KQED Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

September 30, 2023 and 2022

(in thousands unless otherwise indicated)

Leases

The Corporation determines if an arrangement is or contains a lease at inception. Leases are included in operating lease right-of-use (ROU) assets and operating lease liabilities in the consolidated statement of financial position. ROU assets and lease liabilities reflect the present value of the future minimum lease payments over the lease term, and ROU assets also included prepaid or accrued rent. Operating lease expense is recognized on a straight-line basis over the lease term. KQED does not report ROU assets and lease liabilities for its short-term leases (leases with a term of 12 months or less). Instead, these lease payments of those leases are reported as lease expense as cash is paid over the lease term.

Goodwill

Goodwill is initially recorded when the purchase price paid for a business acquisition exceeds the estimated fair value of the net identified tangible and intangible assets acquired.

The Corporation evaluates goodwill on an annual basis or more frequently if management believes indicators of impairment exist. Such indicators can include, but are not limited to (1) a significant adverse change in legal factors or in business climate, (2) unanticipated competition, or (3) an adverse action or assessment by a regulator. The Corporation first assesses qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill. If management concludes that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, management conducts a quantitative goodwill impairment test. The impairment test involves comparing the fair value of the applicable reporting unit with its carrying value. The Corporation estimates the fair values of its reporting units using a combination of the income, or discounted cash flows, approach and the market approach, which utilizes comparable companies' data. If the carrying amount of a reporting unit exceeds the reporting unit's fair value, an impairment loss is recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit. All of the Corporation's goodwill was recognized as part of the acquisition of certain assets and liabilities from Snap Judgment, LLC in July 2023.

Broadcast Rights

The Corporation purchases and capitalizes broadcast rights for certain programs from the Public Broadcasting Service ("PBS") 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 grants are recognized as revenue at fair value when they are received or unconditionally pledged. Individual membership contributions 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 consolidated statement of activities and changes in net assets and approximated \$0.3 million and \$1.3 million for the years ended September 30, 2023 and 2022, respectively, which includes the value of de minimus premium items.

Corporate underwriting support is recognized as net assets without donor restrictions when each performance obligation is fulfilled. Performance obligations typically consist of on-air or digital acknowledgements and revenue is recognized at a point in time when the related acknowledgement is broadcasted by the Corporation. Funds received in advance are reported in deferred production and underwriting revenues in the consolidated statement of financial position. Deferred production and

KQED Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

September 30, 2023 and 2022

(in thousands unless otherwise indicated)

underwriting revenue was approximately \$0.3 million and \$0.5 million as of September 30, 2023 and 2022, respectively.

Government grants are recognized as allowable costs are incurred.

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.

Contributed Nonmonetary Assets

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. Contributed services are valued at the estimated fair value based on current rates for similar services.

The Corporation's policy is to sell all contributed vehicles immediately upon receipt at auction or for salvage. No vehicles received during the period were restricted for use. Sold vehicles are valued according to the actual cash proceeds on their disposition. Vehicles donated but not sold by fiscal year end are valued based upon an average selling price of the cars sold during the year.

In-kind contributions primarily consist of donated goods and space. The fair market value of donated goods is generally the price for which the asset would sell on the open market on the day of the donation. The Corporation estimates the fair value of rentals based on comparable rental prices in a similar location.

For the years ended September 30, contributed nonfinancial assets recognized within the consolidated statement of activities and changes in net assets included:

	2023	2022
Vehicles	\$ 3,676	\$ 3,561
Space (used for fundraising and program)	-	18
Tickets	6	62
Contributed nonfinancial assets for the year ended September 30	\$ 3,682	\$ 3,641

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, 2023 and 2022, sponsorship barter transactions resulted in the recognition of

KQED Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

September 30, 2023 and 2022

(in thousands unless otherwise indicated)

approximately \$0.1 million and \$0.5 million, respectively, in revenues and approximately \$0.1 million and \$0.5 million, respectively, in expenses in the accompanying consolidated 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, in 2013, the Corporation 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 also renovated its headquarters. A portion of funds raised through Campaign 21 was used to assist in this project.

For the years ended September 30, 2023 and 2022, the Corporation received support of approximately \$0.6 million and \$3.2 million, respectively.

As of September 30, 2021, Campaign 21 fundraising efforts concluded.

Advertising Expenses

The costs of advertising are expensed as incurred. Advertising expense was approximately \$1.1 million and \$0.6 million for the years ended September 30, 2023 and 2022, respectively.

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 consolidated 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 was 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 consolidated financial statements.

Functional Expense Allocations

Certain expenses, such as depreciation, software maintenance and support, insurance, utilities and telephone, 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.

KQED Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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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, planned giving 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.

Two donors comprised 40% and one donor comprised 26% of the receivables balance as of September 30, 2023 and 2022, respectively.

As of September 30, 2023, 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 32% of its full-time, part-time and temporary staff. The National Association of Broadcast Employees and Technician ("NABET") union contract expires on October 19, 2025. The contract between the Screen Actors Guild - American Federation of Television and Radio Artists ("SAG-AFTRA") and KQED-FM expires in September 2026. In 2023, 34 employees voted to join SAG-AFTRA, and the Corporation and union are in ongoing negotiations regarding an additional contract to cover those employees.

Twelve employees of Snap also completed a successful union drive in 2023. KQED, on behalf of Snap, will negotiate with NABET for a collective bargaining agreement in 2024.

The Corporation also has a basic minimum agreement with SAG-AFTRA covering performers appearing on KQED-TV, which expires on December 31, 2024. Additionally, the Corporation is a signatory to the SAG-AFTRA Public Television Agreement which covers performers who appear on television programs distributed nationally. The PBS and producing stations, including the Corporation, are, by mutual agreement, continuing to operate under the terms of an agreement with SAG-AFTRA which expired on July 22, 2022 while the parties continue negotiations for renewal agreement.

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 consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

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

New Accounting Pronouncements

The Corporation adopted Accounting Standards Update (ASU) No. 2016-02, *Leases*, which requires lessees to recognize leases on the statement of financial position and disclose key information about

KQED Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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leasing arrangements. The Corporation elected not to restate the comparative period. The Corporation also elected not to reassess at adoption (i) expired or existing contracts to determine whether they are or contain a lease, (ii) the lease classification of any existing leases, or (iii) initial direct costs for existing leases. As a result of implementing ASU No. 2016-02, the Corporation recognized right-of-use assets of \$4.9 million and lease liabilities totaling \$5.3 million in its consolidated statement of financial position as of October 1, 2022. The adoption did not result in any impact on net assets at October 1, 2022 or a significant effect on amounts reported in the consolidated statement of activities for the year ended September 30, 2023.

Subsequent Events

The Corporation evaluated subsequent events from September 30, 2023 through February 12, 2024, the date these consolidated financial statements were available to be issued. The Corporation concluded that no material subsequent events have occurred since September 30, 2023 that require recognition or disclosure in such consolidated financial statements.

NOTE B - AVAILABILITY AND LIQUIDITY

The Corporation has an operating reserve that had a balance of \$22.4 million and \$21.6 million as of September 30, 2023 and 2022, 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 consolidated statement of financial position.

KQED Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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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 consolidated statement of financial position date because of contractual or donor-imposed restrictions or internal designations.

	2023	2022
Cash and cash equivalents	\$ 22,109	\$ 29,503
Restricted cash and cash equivalents	5,842	7,172
Receivables	16,284	16,785
Investments	155,773	126,801
Deferred compensation investments	2,288	2,101
Charitable gifts and annuities and trusts	11,969	10,971
Financial assets as of September 30	214,265	193,333
Amounts not due within one year	(5,578)	(3,413)
Contractual or donor-imposed restrictions:		
Amounts subject to donor restrictions	(8,027)	(9,995)
Donor-restricted endowment funds	(30,519)	(28,764)
Funds restricted by lender	-	(43,870)
Investments held in deferred compensation investments	(2,288)	(2,101)
Investments held in charitable gift annuities and trusts	(11,969)	(10,971)
Board designations:		
Board-designated endowment funds for long term sustainability	(111,782)	(40,775)
Amounts set aside for operating and building reserve	(23,195)	(23,288)
Endowment investments available for general purposes and for distribution in accord with the Corporation spending policy	6,347	6,581
Net assets with purpose restrictions to be met in less than a year	1,400	5,446
Financial assets available to meet cash needs for general expenditures within one year	\$ 28,654	\$ 42,183

NOTE C - RECEIVABLES

At September 30, 2023, receivables consist of the following:

	Accounts and Contributions Receivable	Grants and Underwriting Receivable	Campaign 21 Receivable	Total
Amounts due in:				
One year or less	\$ 6,661	\$ 3,316	\$ 910	\$ 10,887
Two to four years (net of discount of \$217)	4,531	440	607	5,578
Less: allowance for doubtful accounts	-	(181)	-	(181)
Total	\$ 11,192	\$ 3,575	\$ 1,517	\$ 16,284

KQED Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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At September 30, 2022, receivables consist of the following:

	Accounts and Contributions Receivable	Grants and Underwriting Receivable	Campaign 21 Receivable	Total
Amounts due in:				
One year or less	\$ 8,975	\$ 3,060	\$ 1,383	\$ 13,418
Two to four years (net of discount of \$32)	968	1,064	1,381	3,413
Less: allowance for doubtful accounts	-	(46)	-	(46)
Total	\$ 9,943	\$ 4,078	\$ 2,764	\$ 16,785

NOTE D - INVESTMENTS

The Corporation's investments were composed of the following at September 30, 2023:

	Operating	Endowment	Board- Designated Endowment	Total
Cash and cash equivalents	\$ -	\$ 62	\$ 1,263	\$ 1,325
Brokerage certificates of deposit	7,918	-	-	7,918
U.S. treasury bills and notes	5,554	-	-	5,554
Mutual funds - equity	-	21,786	78,379	100,165
Mutual funds - bonds	-	8,671	32,140	40,811
Total	\$ 13,472	\$ 30,519	\$ 111,782	\$ 155,773

The Corporation's investments were composed of the following at September 30, 2022:

	Operating	Endowment	Board- Designated Endowment	Total
Cash and cash equivalents	\$ -	\$ 78	\$ 111	\$ 189
Brokerage certificates of deposit	13,391	-	-	13,391
Mutual funds - equity	-	20,101	59,011	79,112
Mutual funds - bonds	-	8,585	25,524	34,109
Total	\$ 13,391	\$ 28,764	\$ 84,646	\$ 126,801

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 \$95.5 million. Participation

KQED Inc.

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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 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
Building fund		20,000
Reserve fund		<u>8,000</u>
	<u>\$</u>	<u>95,459</u>

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

October 1, 2022 - September 30, 2023	<u>Endowment</u>	<u>Board- Designated Endowment</u>	<u>Total</u>
Contributions invested	<u>\$ -</u>	<u>\$ 23,840</u>	<u>\$ 23,840</u>
Interest and dividends	\$ 885	\$ 2,855	\$ 3,740
Realized and unrealized net gain	2,619	7,437	10,056
Service fees	<u>(74)</u>	<u>(231)</u>	<u>(305)</u>
Total investment gain	3,430	10,061	13,491
Income appropriated to operations	<u>(1,675)</u>	<u>(4,906)</u>	<u>(6,581)</u>
Total investment gain, net	<u>\$ 1,755</u>	<u>\$ 5,155</u>	<u>\$ 6,910</u>

October 1, 2021 - September 30, 2022	<u>Endowment</u>	<u>Board- Designated Endowment</u>	<u>Total</u>
Contributions invested	<u>\$ 14</u>	<u>\$ 5,063</u>	<u>\$ 5,077</u>
Interest and dividends	\$ 889	\$ 2,319	\$ 3,208
Realized and unrealized net loss	(7,399)	(20,337)	(27,736)
Service fees	<u>(85)</u>	<u>(220)</u>	<u>(305)</u>
Total investment loss	(6,595)	(18,238)	(24,833)
Income appropriated to operations	<u>(1,587)</u>	<u>(5,326)</u>	<u>(6,913)</u>
Total investment loss, net	<u>\$ (8,182)</u>	<u>\$ (23,564)</u>	<u>\$ (31,746)</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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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, 2023 on a recurring basis.

	2023			
	Level 1	Level 2	Level 3	Total
Investments:				
Certificates of deposit	\$ -	\$ 7,918	\$ -	\$ 7,918
U.S treasury bills and notes	5,554	-	-	5,554
Mutual funds - equity:				
Domestic small company	11,146	-	-	11,146
Domestic large company	37,493	-	-	37,493
International small company	3,544	-	-	3,544
International large company	19,811	-	-	19,811
Emerging markets	7,826	-	-	7,826
Real estate investment trusts:				
Domestic	13,598	-	-	13,598
International	6,747	-	-	6,747
Mutual funds - bonds:				
Domestic	33,324	-	-	33,324
International	7,487	-	-	7,487
Subtotal investments	<u>\$ 146,530</u>	<u>\$ 7,918</u>	<u>\$ -</u>	154,448
Cash and cash equivalents				<u>1,325</u>
Total				<u>\$ 155,773</u>

KQED Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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	2023			Total
	Level 1	Level 2	Level 3	
Deferred compensation investments:				
Mutual funds - equity:				
Domestic small company	\$ 27	\$ -	\$ -	\$ 27
Domestic medium company	10	-	-	10
Domestic large company	1,402	-	-	1,402
International large company	28	-	-	28
Mutual funds - bonds:				
Domestic	201	-	-	201
Exchange traded funds:				
Domestic large company	17	-	-	17
International small company	58	-	-	58
International large company	159	-	-	159
Stocks - domestic	40	-	-	40
Stocks - international	12	-	-	12
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Subtotal deferred compensation investments	\$ 1,954	\$ -	\$ -	1,954
				<u>334</u>
				<u>\$ 2,288</u>
Charitable gift annuities and trusts:				
Mutual funds - equity:				
Domestic small company	\$ 665	\$ -	\$ -	\$ 665
Domestic large company	\$ 2,840	\$ -	\$ -	\$ 2,840
International small company	232	-	-	232
International large company	1,448	-	-	1,448
Emerging markets	546	-	-	546
Real estate investment trusts:				
Domestic	1,056	-	-	1,056
International	532	-	-	532
Mutual funds - bonds:				
Domestic	3,070	-	-	3,070
International	644	-	-	644
Split interest investment (non-trustee)	-	-	737	737
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Subtotal charitable gift annuities and trusts investments	\$ 11,033	\$ -	\$ 737	11,770
				<u>199</u>
				<u>\$ 11,969</u>

KQED Inc.

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The table below presents the Corporation's assets measured at fair value, by category of risks, at September 30, 2022 on a recurring basis.

	2022			Total
	Level 1	Level 2	Level 3	
Investments:				
Certificates of deposit	\$ -	\$ 8,441	\$ -	\$ 8,441
Mutual funds - equity:				
Domestic small company	9,037	-	-	9,037
Domestic large company	29,347	-	-	29,347
International small company	2,745	-	-	2,745
International large company	15,491	-	-	15,491
Emerging markets	6,007	-	-	6,007
Real estate investment trusts:				
Domestic	11,150	-	-	11,150
International	5,335	-	-	5,335
Mutual funds - bonds:				
Domestic	27,934	-	-	27,934
International	6,175	-	-	6,175
Subtotal investments	<u>\$ 113,221</u>	<u>\$ 8,441</u>	<u>\$ -</u>	121,662
Cash and cash equivalents				189
Certificate of deposit (non-investment security)				<u>4,950</u>
Total				<u>\$ 126,801</u>
Deferred compensation investments:				
Mutual funds - equity:				
Domestic small company	\$ 25	\$ -	\$ -	\$ 25
Domestic medium company	\$ 9	\$ -	\$ -	\$ 9
Domestic large company	1,220	-	-	1,220
International large company	23	-	-	23
Mutual funds - bonds:				
Domestic	231	-	-	231
Exchange traded funds:				
Domestic large company	59	-	-	59
International small company	54	-	-	54
International large company	119	-	-	119
U.S. treasury notes	70	-	-	70
Stocks - domestic	33	-	-	33
Stocks - international	7	-	-	7
Subtotal deferred compensation investments	<u>\$ 1,850</u>	<u>\$ -</u>	<u>\$ -</u>	1,850
Cash and cash equivalents				<u>251</u>
Total				<u>\$ 2,101</u>

KQED Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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	2022			Total
	Level 1	Level 2	Level 3	
Charitable gift annuities and trusts:				
Mutual funds - equity:				
Domestic small company	\$ 644	\$ -	\$ -	\$ 644
Domestic large company	2,520	-	-	2,520
International small company	203	-	-	203
International large company	1,280	-	-	1,280
Emerging markets	473	-	-	473
Real estate investment trusts:				
Domestic	1,016	-	-	1,016
International	487	-	-	487
Mutual funds - bonds:				
Domestic	2,843	-	-	2,843
International	574	-	-	574
Split interest investment (non-trustee)	-	-	693	693
Subtotal charitable gift annuities and trusts investments	<u>\$ 10,040</u>	<u>\$ -</u>	<u>\$ 693</u>	10,733
Cash and cash equivalents				<u>238</u>
Total				<u>\$ 10,971</u>

The following is a rollforward of the Level 3 assets:

	Split-Interest Investment (Non-Trustee)
Fair value at September 30, 2021	\$ 945
Liquidations	(99)
Change in value	<u>(153)</u>
Fair value at September 30, 2022	693
Change in value	<u>44</u>
Fair value at September 30, 2023	<u>\$ 737</u>

Other Financial Instruments

Financial instruments, which are included in the Corporation's consolidated statement of financial position as of September 30, 2023 and 2022 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.

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NOTE F - ACQUISITION

On July 1, 2023, the Corporation acquired certain assets and liabilities from a third party, Snap Judgment, LLC, an audio production house based in Oakland, California, dedicated to compelling narratives, creative sound design, killer beats and authentic voices. The Corporation did not acquire an equity interest in Snap Judgment, LLC.

The Corporation acquired the popular award-winning public radio program and podcast series Snap Judgment and podcast series Spooked. As part of the agreement, the productions of Snap Judgment, LLC become part of Snap. Snap's creative team will produce Snap Judgment and Spooked independently and both shows will continue to be distributed to public radio and across major podcast platforms. Snap will continue to develop other existing and new intellectual property.

The aggregate consideration transferred was \$1.9 million, of which \$1.3 million was paid in cash and \$0.6 million was comprised of contingent deferred payments. The contingent deferred payments is conditional upon employment and production of a minimum amount of episodes each year. The Corporation's Board approved funding of the acquisition through receipts from wills, trusts or other planned giving instruments, not subject to other endowment or purpose restrictions.

The acquisition was accounted for as a business combination and the total purchase consideration was allocated to the net tangible and intangible assets and liabilities acquired based on their fair values on the acquisition date and the excess was recorded as goodwill. The values assigned to the assets acquired and liabilities assumed are based on preliminary estimates of fair value available as of the issuance date of these consolidated financial statements and may be adjusted during the measurement period of up to 12 months from the date of acquisition as further information becomes available. Any changes in the fair values of the assets acquired and liabilities assume during the measurement period may result in adjustments to goodwill.

The following table presents the preliminary purchase consideration allocation recorded in the Corporation's consolidated statement of financial position as of the acquisition date:

	<u>Amount</u>
Accounts receivable	\$ 60
Prepaid expenses and other current assets	591
Intangible assets	500
Goodwill	1,097
Deferred liabilities	<u>(904)</u>
Total acquisition consideration	<u>\$ 1,344</u>

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The following table sets forth the components of identifiable intangible assets acquired and their estimated useful lives as of the date of acquisition:

	Amounts (in thousands)	Weighted Average Useful Life (in years)
Podcast intellectual property	\$ 200	7.5
Contractual agreement	300	10
Total Intangible assets	\$ 500	9

Goodwill represents the future economic benefits arising from other assets that could not be individually identified and separately recognized.

The results of Snap operations from the date of acquisition have been included in the Corporation's consolidated financial statements. Pro forma revenue and results of operations have not been presented because the historical results are not material to the Corporation's consolidated financial statements in any period presented.

NOTE G - INTANGIBLE ASSETS

In May 2003, the Corporation acquired the assets of KQEI-FM Radio in North Highlands, California for \$3.2 million which included \$0.07 million of radio station equipment. The acquisition was accounted for under the purchase method. The purchase price was allocated \$3.0 million to the broadcast license and \$0.2 million to acquisition costs. The broadcast license and acquisition costs are reflected as intangible assets on the accompanying consolidated statement of financial position and are being amortized over the estimated useful life of 40 years. The accumulated amortization at September 30, 2023 and 2022 was \$1.6 million and \$1.5 million, respectively. The radio station equipment is included in property and equipment on the accompanying consolidated statement of financial position.

In October 2006, the Corporation acquired the assets of KTEH Foundation in San Jose which included a license fee for \$0.3 million, which is being amortized over the estimated useful life of 40 years. The accumulated amortization at both September 30, 2023 and 2022 was \$0.2 million.

In July 2023, the Corporation acquired assets from a third party, which included intellectual property and a contractual agreement. As of September 30, 2023, the acquired intangible assets, net consisted of the following:

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Podcast intellectual property	\$ 200	\$ 7	193
Contractual agreement	300	7	293
Total Intangible assets	\$ 500	\$ 14	\$ 486

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

<u>September 30,</u>		
2024	\$	100
2025		100
2026		100
2027		100
2028		100
Thereafter		<u>1,642</u>
Total	\$	<u>2,142</u>

NOTE H - GOODWILL

Changes in the carrying amount of goodwill was as follows:

	<u>Amounts</u>
Balance at September 30, 2022	\$ -
Acquisition	<u>1,097</u>
Balance at September 30, 2023	<u>\$ 1,097</u>

NOTE I - PROPERTY AND EQUIPMENT

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

	<u>2023</u>	<u>2022</u>
Land	\$ 1,270	\$ 1,270
Building and improvements	91,871	92,463
Furniture, fixtures, office equipment and vehicles	17,316	19,580
TV station equipment	28,142	32,896
Radio station equipment	10,135	11,831
Multiplatform equipment	2,965	2,806
Less: accumulated depreciation	<u>(45,660)</u>	<u>(48,721)</u>
Property and equipment, net	<u>\$ 106,039</u>	<u>\$ 112,125</u>

Depreciation expense was \$6.9 million and \$10.0 million for the years ended September 30, 2023 and 2022, respectively.

KQED Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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NOTE J - NET ASSETS

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

	<u>2023</u>	<u>2022</u>
Undesignated	\$ 123,791	\$ 131,754
Board-designated		
Board-designated endowment	62,836	38,144
Spectrum endowment	48,946	46,501
Reserve fund	22,352	21,625
Building fund	843	1,663
Total Board-designated	<u>134,977</u>	<u>107,933</u>
Total net assets without donor restrictions	<u>\$ 258,768</u>	<u>\$ 239,687</u>

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

	<u>2023</u>	<u>2022</u>
Campaign 21 (restricted for purpose and time)	\$ 6,771	\$ 8,566
Planned gifts (restricted for time)	5,870	5,255
Endowment planned gifts (restricted for time and purpose)	384	363
Endowment receivables (restricted for time)	324	93
Underwrite specific productions or areas of programming (restricted for purpose and time)	2,538	3,673
Investment in perpetuity (including amounts above original gift amount of \$20,083 as of September 30, 2023 and 2022), which, once appropriated, is expendable to support:		
Arts	2,807	2,645
Education	112	106
Science	989	932
General production of content	2,241	2,112
General operations	24,370	22,969
Total net assets with donor restrictions	<u>\$ 46,406</u>	<u>\$ 46,714</u>

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:

	<u>2023</u>	<u>2022</u>
Campaign 21 program and building	\$ 2,405	\$ 8,187
Underwrite specific productions or areas of programming	4,940	5,127
Endowment earnings appropriated	1,675	1,587
Planned gifts	346	273
Total	<u>\$ 9,366</u>	<u>\$ 15,174</u>

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NOTE K - ENDOWMENTS

The Corporation's endowments consist of donor-restricted endowment funds and funds designated by the Board 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 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 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, 2023 and 2022.

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 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.

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(in thousands unless otherwise indicated)

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, 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:

	2023		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 30,519	\$ 30,519
Board-designated endowment	62,836	-	62,836
Spectrum auction endowment	48,946	-	48,946
	<u>\$ 111,782</u>	<u>\$ 30,519</u>	<u>\$ 142,301</u>
	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 28,764	\$ 28,764
Board-designated endowment	38,144	-	38,144
Spectrum auction endowment	46,501	-	46,501
	<u>\$ 84,645</u>	<u>\$ 28,764</u>	<u>\$ 113,409</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 charitable gift annuities and trusts and receivables of \$0.7 million and \$0.5 million as of September 30, 2023 and 2022, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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Endowment activity by net asset classification as of September 30, 2023:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 84,645	\$ 28,764	\$ 113,409
Investment return:			
Interest and dividends	2,855	885	3,740
Realized and unrealized net gain (loss)	7,437	2,619	10,056
Service fees	(231)	(74)	(305)
Total investment gain (see Note D)	10,061	3,430	13,491
Contributions	23,840	-	23,840
Assets designated by the Board for acquisition of business	(1,858)	-	(1,858)
Appropriation of endowment assets for expenditure	(4,906)	(1,675)	(6,581)
Endowment net assets, end of year	<u>\$ 111,782</u>	<u>\$ 30,519</u>	<u>\$ 142,301</u>

Endowment activity by net asset classification as of September 30, 2022:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 93,595	\$ 36,932	\$ 130,527
Investment return:			
Interest and dividends	2,319	889	3,208
Realized and unrealized net gain (loss)	(20,337)	(7,399)	(27,736)
Service fees	(220)	(85)	(305)
Total investment loss (see Note D)	(18,238)	(6,595)	(24,833)
Contributions	5,063	14	5,077
Reimbursement from Campaign 21	10,000	-	10,000
Assets designated by the Board for property and equipment	(449)	-	(449)
Appropriation of endowment assets for expenditure	(5,326)	(1,587)	(6,913)
Endowment net assets, end of year	<u>\$ 84,645</u>	<u>\$ 28,764</u>	<u>\$ 113,409</u>

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NOTE L - CAMPAIGN 21

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

	2023	2022
Restricted cash	\$ 4,945	\$ 5,802
Property and equipment, net	309	-
Receivables, net	1,517	2,764
Total Campaign 21 assets	\$ 6,771	\$ 8,566

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

	2023	2022
Multiplatform content	\$ 925	\$ 1,424
Building project	-	309
Education	363	521
Innovation lab	605	653
Total Campaign 21 program services expense	\$ 1,893	\$ 2,907

NOTE M - COMMITMENTS AND CONTINGENCIES

Leases

The Corporation evaluated current contracts to determine which met the criteria of a lease. The ROU assets represents the Corporation's right to use underlying assets for the lease term, and the lease liabilities represent the Corporation's obligation to make lease payments arising from these leases. The ROU assets and lease liabilities, all of which arise from operating leases, were calculated based on the present value of future lease payments over the lease terms. The Corporation has made an accounting policy election to use a risk-free rate in lieu of its incremental borrowing rate to discount future lease payments. The weighted average discount rate applied to calculate lease liabilities as of September 30, 2023 was 2.13%.

The Corporation's operating leases consist primarily of real estate leases in connection with its operation of noncommercial public television and radio stations.

For the year ended September 30, 2023, total operating lease expense was \$1.8 million, and total short-term lease expense was approximately \$0.1 million. As of September 30, 2023, the weighted-average remaining lease term for the Corporation's operating leases was approximately 6 years. Cash paid for operating leases for the year ended September 30, 2023 was \$1.8 million.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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(in thousands unless otherwise indicated)

Future maturities of lease liabilities are presented in the following table, for the fiscal years ending September 30:

<u>September 30,</u>	
2024	\$ 1,850
2025	950
2026	495
2027	100
2028	103
Thereafter	<u>855</u>
Total lease payments	4,353
Less: present value discount	<u>(577)</u>
Total lease obligations	<u>\$ 3,776</u>

The minimum lease payments do not include future cost-of-living escalations and pro rata property tax allocations, which are required for certain of the leases. Total rent expense, including month-to-month leases, was \$1.9 million and \$2.4 million for the years ended September 30, 2023 and 2022, 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.

NOTE N - CONDITIONAL PROMISES TO GIVE

The Corporation received grants from multiple funders, which have been determined to be conditional grants based on meeting specific program deliverables. Total cumulative grants awarded to the Corporation as of September 30, 2023 was \$2.9 million. For the years ended September 30, 2023 and 2022, the Corporation has recognized \$0.5 million and \$1.7 million, respectively. As of September 30, 2023, \$0.2 million remains conditional. The conditions are expected to be met next year.

The Corporation receives cash payments in advance from donors to be used as challenge grants. For the years ended September 30, 2023 and 2022, the amount of payments for which conditions have not been met was \$0.07 million and \$0.06 million, respectively. The conditions are expected to be met in the next fiscal year.

NOTE O - 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%. The Contribution costs, funded currently, were \$1.9 million and \$1.2 million for the years ended September 30, 2023 and 2022, respectively.

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, 2023 and 2022, approximately

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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\$0.05 million and \$0.08 million, respectively, has been deferred based on elections made by the participants to the 457(b) plan.

The total market value of 457(b) investments and the related deferred compensation obligations to employees included in the consolidated statement of financial position at September 30, 2023 and 2022 were approximately \$2.3 million and \$2.1 million, respectively.

NOTE P - RELATED PARTY TRANSACTIONS

The Corporation has transactions, where directors make contributions or recommend contributions to the Corporation through a donor advised fund. For the years ended September 30, 2023 and 2022, those contributions were approximately \$0.7 million and \$0.4 million, respectively. As of September 30, 2023 and 2022, the balance due from related parties was approximately \$0.3 million and \$0.6 million, respectively.