

WOED MULTIMEDIA AND SUBSIDIARY
Pittsburgh, Pennsylvania

Consolidated Financial Statements
For the years ended September 30, 2016 and 2015
and Independent Auditors' Report Thereon



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INDEPENDENT AUDITORS' REPORT

Board of Trustees
WQED Multimedia and Subsidiary
Pittsburgh, Pennsylvania

We have audited the accompanying consolidated financial statements of WQED Multimedia and Subsidiary (WQED), which comprise the consolidated statements of financial position as of September 30, 2016 and 2015, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of WQED as of September 30, 2016 and 2015, and the changes in their net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Schneider Downs & Co., Inc.

Pittsburgh, Pennsylvania
March 15, 2017

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WQED MULTIMEDIA AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	September 30	
	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents	\$ 16,737	\$ 205,518
Accounts receivable, net	164,403	217,572
Grants receivable	2,115,644	2,170,129
Pledges receivable	585,247	861,134
Prepaid expenses	156,620	176,237
Investments	7,280,759	7,138,157
Property and equipment, net	<u>6,086,786</u>	<u>6,636,680</u>
Total Assets	<u><u>\$16,406,196</u></u>	<u><u>\$17,405,427</u></u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Line of credit	\$ 500,000	\$ 4,900,000
Accounts payable	1,023,071	917,520
Accrued liabilities	1,410,346	1,742,456
Gift annuity payable	186,652	221,152
Deferred revenue	211,547	278,940
Term loan	<u>3,755,160</u>	<u>-</u>
Total Liabilities	7,086,776	8,060,068
NET ASSETS		
Unrestricted	(1,731,832)	(2,305,693)
Temporarily restricted	5,816,254	6,416,054
Permanently restricted	<u>5,234,998</u>	<u>5,234,998</u>
Total Net Assets	<u>9,319,420</u>	<u>9,345,359</u>
Total Liabilities And Net Assets	<u><u>\$16,406,196</u></u>	<u><u>\$17,405,427</u></u>

See notes to the consolidated financial statements.

WQED MULTIMEDIA AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
OPERATING REVENUES AND SUPPORT				
Contributed Income:				
Membership	\$ 4,126,866	\$ 76,608	-	\$ 4,203,474
Government grants and contributions	-	2,341,538	-	2,341,538
Foundation grants and contributions	86,440	784,065	-	870,505
Corporate grants and contributions	17,300	260	-	17,560
Sales and underwriting	1,377,714	269,740	-	1,647,454
Earned Income:				
Distribution, royalties and ancillary services	1,744,087	-	-	1,744,087
Investment income	54,799	523,720	-	578,519
Other	12,729	-	-	12,729
	7,419,935	3,995,931	-	11,415,866
Net assets released from restriction	4,595,731	(4,595,731)	-	-
	12,015,666	(599,800)	-	11,415,866
EXPENSES AND OTHER DEDUCTIONS				
Salaries	3,128,980	-	-	3,128,980
Payroll taxes and benefits	915,245	-	-	915,245
Professional fees	606,524	-	-	606,524
Facilities	1,466,403	-	-	1,466,403
Travel and entertainment	101,372	-	-	101,372
Supplies	73,167	-	-	73,167
Marketing	25,972	-	-	25,972
Distribution and fulfillment	17,704	-	-	17,704
Membership	1,110,597	-	-	1,110,597
Other operating expense	379,010	-	-	379,010
Depreciation	678,295	-	-	678,295
Interest expense	91,891	-	-	91,891
Program acquisition	1,818,448	-	-	1,818,448
Production/project costs	1,028,197	-	-	1,028,197
	11,441,805	-	-	11,441,805
Changes in Net Assets	573,861	(599,800)	-	(25,939)
NET ASSETS				
Beginning of year	(2,305,693)	6,416,054	\$ 5,234,998	9,345,359
End of year	\$(1,731,832)	\$ 5,816,254	\$ 5,234,998	\$ 9,319,420

2015

<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
\$ 3,907,013	\$ 497,141	-	\$ 4,404,154
-	2,464,433	-	2,464,433
40,000	1,216,732	-	1,256,732
127,018	-	-	127,018
1,177,189	297,500	-	1,474,689
1,504,219	-	-	1,504,219
49,009	(171,673)	-	(122,664)
43,187	-	-	43,187
<u>6,847,635</u>	<u>4,304,133</u>	<u>-</u>	<u>11,151,768</u>
<u>6,030,579</u>	<u>(6,030,579)</u>	<u>-</u>	<u>-</u>
<u>12,878,214</u>	<u>(1,726,446)</u>	<u>-</u>	<u>11,151,768</u>
3,959,242	-	-	3,959,242
1,304,067	-	-	1,304,067
698,315	-	-	698,315
1,428,041	-	-	1,428,041
124,672	-	-	124,672
71,465	-	-	71,465
58,961	-	-	58,961
15,335	-	-	15,335
811,331	-	-	811,331
451,194	-	-	451,194
676,459	-	-	676,459
96,589	-	-	96,589
1,898,016	-	-	1,898,016
1,450,228	-	-	1,450,228
<u>13,043,915</u>	<u>-</u>	<u>-</u>	<u>13,043,915</u>
(165,701)	(1,726,446)	-	(1,892,147)
<u>(2,139,992)</u>	<u>8,142,500</u>	<u>\$ 5,234,998</u>	<u>11,237,506</u>
<u><u>\$(2,305,693)</u></u>	<u><u>\$ 6,416,054</u></u>	<u><u>\$ 5,234,998</u></u>	<u><u>\$ 9,345,359</u></u>

See notes to the consolidated financial statements.

WQED MULTIMEDIA AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ (25,939)	\$(1,892,147)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	678,295	676,459
Net realized and unrealized (gain) loss on investments	(373,868)	318,972
Provision for uncollectible accounts	12,000	3,115
Changes in assets and liabilities:		
Accounts receivable	41,169	(40,494)
Grants receivable	54,485	588,211
Pledge receivable	275,887	277,478
Prepaid expenses and other assets	19,617	237,568
Accounts payable	105,551	(419,602)
Accrued liabilities	(332,110)	377,063
Gift annuity payable	(34,500)	106,274
Deferred revenue	(67,393)	130,298
Net Cash Provided By Operating Activities	<u>353,194</u>	<u>363,195</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	1,822,824	621,995
Purchase of investments	(1,591,558)	(656,449)
Purchase of property and equipment	(128,401)	(152,780)
Net Cash Provided By (Used In) Investing Activities	<u>102,865</u>	<u>(187,234)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Line of credit, net	(4,400,000)	(150,000)
Proceeds on term loan	4,000,000	-
Repayments of term loan	(244,840)	-
Net Cash Used In Financing Activities	<u>(644,840)</u>	<u>(150,000)</u>
 Net (Decrease) Increase In Cash And Cash Equivalents	 <u>(188,781)</u>	 <u>25,961</u>
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>205,518</u>	<u>179,557</u>
End of year	<u>\$ 16,737</u>	<u>\$ 205,518</u>

See notes to the consolidated financial statements.

WQED MULTIMEDIA AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2016 AND 2015

NOTE 1 - ORGANIZATION

WQED Multimedia (WQED) is a nonprofit corporation whose purpose is to harness the power of public media and partnerships for the digital age in order to create and share outstanding public media that educates, entertains and inspires. The financial statements include the accounts of WQED and its subsidiary (collectively, the Organization). All significant transactions and accounts between the consolidated entities have been eliminated.

WQED was incorporated on February 18, 1953 in the Commonwealth of Pennsylvania. In May 2002, WQED formed a subsidiary, WQED Productions, LLC. WQED is the sole member of the LLC. This entity shares the same common mission of education and cultural radio and television programming and share common management with WQED.

WQED is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (IRC). Under the provisions of the IRC and similar state provisions, the LLCs are considered to be disregarded entities and are not taxed. Under these provisions, WQED reflects its proportionate share of the income or loss on its federal filing. The LLC is not liable for income taxes, and its income is not taxable to WQED.

NOTE 2 - LIQUIDITY AND CAPITAL RESOURCES

As of and for the year ended September 30, 2016, WQED has negative unrestricted net assets totaling \$1,731,832. Management has instituted a cost reduction plan that reduces certain operating costs, including staff and salary cuts, and is engaged in fundraising efforts to raise additional capital. Ultimately, WQED's plan is to create a sustainable, repeatable revenue base over the next three years that will retire \$5 million in debt over the next 15 years. To that extent WQED entered into a new debt arrangement that created a term loan that will allow WQED to retire debt over the next 15 years. (See Note 7.)

In February 2017, WQED announced that it was provisionally awarded approximately \$9.9 million in proceeds from the FCC reverse broadcast spectrum incentive auction. The provisional award is subject to change should any bidders default on their obligations; however, management believes the likelihood of that is remote. Management anticipates that the proceeds, which will take up to a year to receive, will enable WQED to retire its debt, reimburse funds borrowed from the endowment (See Note 9 - Endowment), and to cover technical and equipment costs to move WQED's spectrum position.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of significant accounting policies consistently applied by management in the preparation of the accompanying financial statements follows:

Basis of Accounting and Presentation - The consolidated financial statements of WQED have been prepared on the accrual basis of accounting, and are presented in accordance with accounting pronouncements generally accepted in the United States of America.

Principles of Consolidation - The consolidated financial statements include the accounts of WQED Multimedia, and WQED Productions, LLC. All intercompany balances and transactions have been eliminated.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

WQED MULTIMEDIA AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets - Net assets of WQED and changes therein are classified and reported as follows:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed stipulations.

Unrestricted Board-Designated Net Assets - Net assets that have been designated by the Board to provide support for activities that further WQED's mission.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed or legal stipulations that may or will be met either by actions of WQED and/or the passage of time.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by WQED. Generally, the donors of these assets permit WQED to use all or part of the income earned on related investments for general or specific purposes.

Grants and contributions received are recorded as unrestricted/temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released due to satisfaction of program restrictions.

Licensing transactions are accounted for as exchange transactions. These types of transactions are primarily recorded as distribution, royalties, and ancillary services revenues and expenses. For licensing transactions, revenue and direct expenses are recognized upon completion of the project or identifiable components within the project. Deferred revenue includes revenue on uncompleted projects that has not been earned as of the statement of financial position date. Program expenses related to uncompleted projects are capitalized as assets.

Grants and contributions related to program production and other development projects underwritten by foundations, corporations and others (which are nonlicensing transactions) are initially recorded in temporarily restricted net assets.

In-Kind Donations - Donated materials and services that meet the recognition requirements under generally accepted accounting principles are reflected as contributions at their estimated values at the date of receipt.

The Organization has a 99-year lease with a local university, which expires in February of 2066, at a nominal fee of \$1 per year for the land and building where its studio and office facilities are located. The lease states that the land and facilities are to be used in operation of a noncommercial, nonprofit, educational television station. The lease also states that the property must be surrendered in good condition and repair, and the Organization must remove certain fixtures and equipment upon termination of the lease at its own expense, which, it is estimated, would be minimal. The Organization accounts for the lease in contributed services based on the estimated annual rental income.

These contributed services are recorded as contribution revenue and rent expense for the amount of \$335,000 in 2016 and 2015.

Cash and Cash Equivalents - For purposes of the statements of cash flows, WQED considers all investments purchased with maturities of three months or less to be cash equivalents. Carrying value approximates fair value for these investments. WQED maintains cash and cash equivalents that might exceed federally insured amounts at times.

WQED MULTIMEDIA AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable - Accounts receivable are stated at the amount management expects to collect from balances outstanding at year-end. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to trade accounts receivable. The allowance for doubtful accounts was approximately \$59,000 and \$47,000 at September 30, 2016 and 2015, respectively.

Grants Receivable - Grants receivable, primarily for temporarily restricted net assets, are recognized as revenues or gains in the period the grant is received. Grants receivable include assets and decreases of liabilities, or expenses depending on the form of the benefits received. The Organization expects that substantially all of the grants will be collected within one year. As of September 30, 2016 and 2015, no allowance for uncollectible grants was considered to be necessary.

One donor, the Corporation for Public Broadcasting (CPB), accounted for approximately 76% and 82% of the Organization's grants receivable at September 30, 2016 and 2015, respectively.

Pledges Receivable - Pledges receivable expected within one year are recorded at their net realized value. Pledges that are expected to be collected in future years are recorded at fair value, which is measured as the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discount is included in contribution revenue.

Conditional pledges are recognized when the conditions on which they depend are substantially met. There were no conditional promises to give at September 30, 2016 and 2015.

Investments - Investments are carried at their current fair value. Those investments received as gifts or donations are recorded at their fair value on the date received. Net appreciation or depreciation in the fair value of the investments is reflected in unrestricted revenue unless the use of the assets received is limited by donor imposed restrictions or law.

Investment income is recognized when earned. Realized gains and losses on the sale of securities are recognized using the specific identification method at the time of the sale or redemption.

WQED has investments in mutual funds and other investment securities. Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the consolidated statement of financial position.

Property and Equipment - Property and equipment are stated at the lower of cost or fair value. Repairs, maintenance and minor replacements of existing facilities that are not considered to extend the useful lives of assets are included with expenditures as incurred. Provision for depreciation has been computed using the straight-line method based upon estimated useful lives. Contributions of donated asset are recorded at their fair values in the period received. Upon sale or retirement, the cost of assets and related allowances are removed from the accounts, and any resulting gains or losses are included in income (expense) for the year.

WQED MULTIMEDIA AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2016 AND 2015

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

WQED reviews the carrying amount of property and equipment for impairment whenever events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Recoverability of long-lived assets is measured by a comparison of the carrying amount of an asset to future net undiscounted pre-tax cash flows expected to be generated by the asset. If these comparisons indicate that an asset is not recoverable, the impairment loss recognized is the amount by which the carrying amount of the asset exceeds the related estimated fair value. There were no impairment losses recorded for the years ended September 30, 2016 and 2015.

Compensated Absences - Employees are entitled to vacations that can accumulate up to a year if unused. WQED recognizes the expense and related liability when earned by the employees.

Expense Allocation - Directly identifiable expenses are charged to programs and supporting services. Certain costs not charged directly have been allocated among the programs and supporting services benefited according to the WQED's cost allocation plan, which management believes is fair and equitable.

Charitable Gift Annuities - Annuity agreements are issued in exchange for a payment that is part charitable contribution and part purchase of an annuity, providing payments for the stated annuitant during their lifetime. A liability is recorded at the present value of the expected future payments under these agreements based on current rates in the Internal Revenue Service's actuarial tables for annuities.

Fair Value Measurements - WQED applies the Fair Value Measurements topic of the Accounting Standards Codification (Codification or ASC), which is intended to increase consistency and comparability in fair value measurements by defining fair value, establishing a framework for measuring fair value and expanding disclosures about fair value measurements. The three levels of the fair value hierarchy are described as follows:

Level 1 - Securities traded in an active market with available quoted prices for identical assets as of the reporting date.

Level 2 - Securities not traded on an active market but for which observable market inputs are readily available or Level 1 securities where there is a contractual restriction as of the reporting date.

Level 3 - Securities not traded in an active market and for which no significant observable market inputs are available as of the reporting date.

WQED uses appropriate valuation techniques based on the available inputs to measure the fair values of its assets and liabilities. When available, WQED measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs have the lowest priority. All of WQED's investments were valued using Level 1 measurements at September 30, 2016 and 2015.

Endowment Funds - WQED's endowment consists of donor-restricted investment funds established for support of the WQED's mission. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Organization to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. These disclosures are included in Note 9.

WQED MULTIMEDIA AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements - The FASB has issued ASU No. 2014-15 Presentation of Financial Statements-Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. ASU 2014-15 is intended to define management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. Currently, accounting principles generally accepted in the United States of America lacks guidance about management's responsibility to evaluate whether there is substantial doubt about the organization's ability to continue as a going concern or to provide related footnote disclosures. ASU 2014-15 provides guidance to an organization's management, with principles and definitions that are intended to reduce diversity in the timing and content of disclosures that are commonly provided by organizations today in the financial statement footnotes. The amendments are effective for annual periods ending after December 15, 2016, and interim periods within annual periods beginning after December 15, 2016. Early application is permitted for annual or interim reporting periods for which the financial statements have not previously been issued. WQED is assessing the impact that ASU 2014-15 will have on its consolidated financial statements.

In May 2014, the FASB issued new accounting guidance related to revenue recognition. This new standard will replace all current GAAP guidance on this topic and eliminate all industry-specific guidance. The new revenue recognition guidance provides a unified model to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration for which the entity expects to be entitled in exchange for those goods or services. In August 2015, the FASB issued a deferral on the implementation date, and this guidance will be effective for the Organization beginning September 30, 2020 and can be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. WQED is currently evaluating the impact of adopting this new accounting guidance on its consolidated financial statements.

In April 2015, the FASB issued Accounting Standards Update (ASU) 2015-03, "Simplifying the Presentation of Debt Issuance Costs." This standard update requires an entity to present debt issuance costs on the balance sheet as a direct deduction from the related debt liability as opposed to an asset. Amortization of the costs will continue to be reported as interest expense. The update is effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2015. Early adoption is permitted for financial statements that have not been previously issued, and the new guidance would be applied retrospectively to all prior periods presented. WQED is currently in the process of evaluating the impact of adoption of this standard on its consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02 Leases (Topic 842). Under ASU 2016-02, a lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. Under finance leases, a lessee will be required to recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments in the statement of financial position, recognize interest on the lease liability separately from amortization of the right-of-use asset in the statement of comprehensive income, and classify repayments on the principal portion of the lease liability within financing activities and payments of interest on the lease liability and variable lease payments within operating activities in the statement of cash flows. For operating leases, a lessee is required to recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in the statement of financial position, recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term on a generally straight-line basis, and classify all cash payments within operating activities in the statement of cash flows. The amendments are effective for fiscal years beginning after December 15, 2019, and early application is permitted. WQED is assessing the impact that ASU 2016-02 will have on its consolidated financial statements.

WQED MULTIMEDIA AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In August 2016, the FASB completed Phase I of its Presentation of Financial Statements of Not-for-Profit Entities and issued ASU 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. This new ASU is intended to simplify and improve not-for-profit financial reporting.

Specifically, the new guidance:

- Revises the net asset classification scheme to two classes (net assets with donor restrictions and net assets without donor restrictions) instead of the previous three classes, while maintaining the requirement to report total net assets and changes in the classes of and total of net assets.
- Continues to allow for a choice between the direct and indirect method of reporting operating cash flows; however, presentation of the indirect reconciliation is no longer required if using the direct method.
- Enhances disclosures for:
 - Self-imposed limits on the use of resources without donor-imposed restrictions
 - Composition of net assets with donor restrictions, and how the restrictions affect the use of resources
 - Qualitative disclosures on how a not-for-profit manages its available liquid resources, to meet cash needs for general expenditures within one year of the balance sheet date
 - Quantitative disclosures that communicate the availability of financial assets to meet cash needs for general expenditures within one year of the balance sheet date
 - Methods used to allocate costs among program and support functions
- Requires the presentation of expenses by nature as well as function, including an analysis of expenses showing the relationship between functional and natural classification for all expenses.
- Updates the accounting and disclosure requirements for underwater endowment funds, which include required disclosure of (1) policy concerning appropriation from underwater endowment funds, (2) the aggregate fair value of such funds, (3) the aggregate original gift amount (or level required by donor or law) to be maintained, and (4) the aggregate amount by which funds are underwater, which are to be classified as part of net assets with donor restrictions.
- Requires net presentation of investment expenses against investment return on the statement of activities and eliminates the requirement to disclose investment expenses that have been netted.
- Requires the use of, in the absence of explicit donor stipulations, the placed-in-service approach for reporting expiration of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset and reclassification of amounts from net assets with donor restrictions to net assets without donor restrictions for such long-lived assets that have been placed in service as of the beginning of the period of adoption (thus eliminating the current option to release the donor-imposed restrictions over the estimated useful life of the acquired asset).

ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, with early application permitted. WQED is assessing the impact that this standard will have on its consolidated financial statements.

WQED MULTIMEDIA AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In August 2016, the FASB issued ASU 2016-15 Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. The guidance reduces diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. ASU 2016-15 requirements are as follows: 1) cash payments for debt prepayment or debt extinguishment costs should be classified as cash outflows for financing activities, 2) contingent consideration payments made soon after a business combination should be classified as cash outflows for investing activities and cash payment made thereafter should be classified as cash outflows for financing up to the amount of the contingent consideration liability recognized at the acquisition date with any excess classified as operating activities, 3) cash proceeds from the settlement of insurance claims should be classified on the basis of the nature of the loss, 4) cash proceeds from the settlement of Corporate-Owned Life Insurance (COLI) policies should be classified as cash inflows from investing activities, and cash payments for premiums on COLI policies may be classified as cash outflows for investing activities, operating activities, or a combination of investing and operating activities, and 5) cash paid to a tax authority by an employer when withholding shares from an employee's award for tax-withholding purposes should be classified as cash outflows for financing activities. This guidance will be effective for the Organization beginning September 30, 2020 and can be applied either retrospectively to each period presented. WQED is currently evaluating the impact of adopting this new accounting guidance on its consolidated financial statements.

Subsequent Events - Subsequent events are defined as events or circumstances that occur after the balance sheet date, but before the financial statements are issued or available to be issued. Management has evaluated subsequent events through March 15, 2017, which is the date that the financial statements were available to be issued.

NOTE 4 - PLEDGES RECEIVABLE

Pledges receivable at September 30 are as follows:

	<u>2016</u>	<u>2015</u>
Gross pledges receivable	\$ <u>585,247</u>	\$ <u>861,134</u>
	\$ <u>585,247</u>	\$ <u>861,134</u>
Amounts due in:		
Less than one year	\$ 312,679	\$ 335,842
One to five years	<u>272,568</u>	<u>525,292</u>
	\$ <u>585,247</u>	\$ <u>861,134</u>

WQED MULTIMEDIA AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 5 - INVESTMENTS

The cost and related market value of WQED's investments at June 30 are summarized as follows:

	2016		2015	
	Market	Cost	Market	Cost
Money market	\$ 102,071	\$ 102,071	\$ 168,128	\$ 168,129
Exchange traded funds:				
Equity	1,630,216	1,169,610	1,492,333	1,133,108
Mutual funds:				
Equity	1,512,703	1,433,071	1,420,274	1,407,408
Fixed income	2,155,548	2,155,454	2,282,477	2,346,289
Common stock:				
Consumer discretionary	232,353	197,101	231,934	176,012
Consumer staples	175,557	162,252	191,466	157,396
Energy	170,494	170,035	149,448	197,084
Financial	267,383	250,537	291,178	268,332
Health care	268,926	278,799	199,366	203,389
Industrials	183,313	168,814	168,968	154,810
Information technology	379,207	315,149	431,168	350,660
Materials	55,029	55,594	39,892	41,248
Real estate	17,482	15,992	-	-
Telecommunication services	81,929	63,152	48,639	32,702
Utilities	47,548	41,499	21,886	19,429
Other Equity	1,000	1,000	1,000	1,000
	<u>\$ 7,280,759</u>	<u>\$ 6,580,130</u>	<u>\$ 7,138,157</u>	<u>\$ 6,565,996</u>

Investment (loss) income is composed of the following:

	2016	2015
Interest and dividends	\$ 204,651	\$ 196,308
Realized gain on sale of investments	131,290	181,456
Total realized income	335,941	377,764
Unrealized appreciation (depreciation)	242,578	(500,428)
Net investment income (loss)	<u>\$ 578,519</u>	<u>\$ (122,664)</u>

The fair value for all of the Organization's investments is determined by reference to quoted market prices and other relevant information, generated by market transactions.

WQED MULTIMEDIA AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at September 30:

	<u>2016</u>	<u>2015</u>
Transmitter:		
Building	\$ 328,454	\$ 328,454
Tower	3,308,875	3,308,875
Studio building and improvements	12,903,552	12,903,552
Technical equipment	5,939,557	5,939,557
Office furniture and equipment	<u>3,127,170</u>	<u>2,998,768</u>
	25,607,608	25,479,206
Accumulated depreciation	(19,521,122)	(18,842,826)
Land	<u>300</u>	<u>300</u>
	<u>\$ 6,086,786</u>	<u>\$ 6,636,680</u>

WQED holds title to the transmitter building subject to the understanding that this facility, which was acquired by gift, is to be used only for educational broadcasting purposes or research related to education.

In prior years, WQED acquired equipment with grants received from the Public Telecommunications Facilities Program (PTFP). Under the agreements with PTFP, equipment purchased through this program must be maintained by WQED for ten years, during which the grantor has a lien on this property. The WQED has capitalized the equipment, since it is probable that the equipment will be maintained for at least ten years. The remaining net book value of this equipment was \$280,869 and \$311,653 as of September 30, 2016 and 2015, respectively.

NOTE 7 - LONG-TERM DEBT

On December 18, 2015, WQED entered into an agreement for a \$4,000,000 term loan and a \$2,000,000 line of credit. The \$4,000,000 term loan is due in weekly installments of \$6,121, plus interest over 15 years. Interest will be charged at a floating rate of the greater of 2.0% or one-month LIBOR plus 1.0% (2.0% at September 30, 2016). In addition, WQED has the option of electing either a five-year or ten-year swap index rate based upon rates in effect at the time of the election. The \$2,000,000 line-of-credit arrangement remains in effect until December 31, 2020. The line of credit will bear interest at the greater of 2.0% or one month LIBOR rate plus 1.0% (2.0% at September 30, 2016). The arrangement is collateralized by all eligible assets of WQED included certain marketable securities, the value of which at all times must be equal or greater than one hundred fifteen percent (115%) of all outstanding amounts under the agreements.

The aggregate annual amount of principal payments required on the term loan are as follows:

2017	\$ 318,292
2018	318,292
2019	318,292
2020	318,292
2021	318,292
Thereafter	<u>2,163,700</u>
	<u>\$ 3,755,160</u>

Interest expense incurred and paid was \$91,891 and \$96,589 for 2016 and 2015, respectively.

WQED MULTIMEDIA AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015

NOTE 8 - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets at September 30 are available for the following purposes:

	<u>2016</u>	<u>2015</u>
Capital	\$ 646,710	\$ 693,804
Program production and development	4,594,804	5,529,881
Education	504,785	30,000
FM radio	53,750	90,562
Membership development	<u>16,205</u>	<u>71,807</u>
	\$ <u>5,816,254</u>	\$ <u>6,416,054</u>

Permanently restricted net assets are restricted to the original corpus of the gifts to the endowment fund. The income from these assets is expendable to support the activities within each category. Permanently restricted net assets at September 30 provide income for the following purposes:

	<u>2016</u>	<u>2015</u>
WQED-FM Endowment Fund	\$ 510,000	\$ 510,000
Bessie F. Anathan Scholarship Fund	50,000	50,000
Program Development Seed Fund	<u>4,674,998</u>	<u>4,674,998</u>
	\$ <u>5,234,998</u>	\$ <u>5,234,998</u>

Net assets released from restrictions consist of the following:

	<u>2016</u>	<u>2015</u>
Program production and development	\$ 4,387,973	\$ 5,823,896
Capital projects	147,093	149,027
Other	<u>60,665</u>	<u>57,656</u>
	\$ <u>4,595,731</u>	\$ <u>6,030,579</u>

NOTE 9 - ENDOWMENT

WQED's endowment consists of various investment funds established primarily for support of the organization's mission. Its endowment includes donor-restricted endowment funds and board-designated quasi-endowment funds. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by WQED to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

WQED MULTIMEDIA AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015

NOTE 9 - ENDOWMENT

Interpretation of Relevant Law - The Trustees of WQED have elected to be governed by the Commonwealth of Pennsylvania's Act 141 (Act 141). Act 141 is a total return policy that allows a nonprofit to choose to treat a percentage of the average market value of the endowment's permanently restricted investments as income each year. However, the long-term preservation of the real value of the assets must be taken into consideration when the Board elects the amount. On an annual basis, the Directors of the Board, in writing, must elect a spending rate of between 2% and 7%. In accordance with Act 141, WQED annually transfers between 4% and 7% of the previous 12 quarters' market value average of the permanently restricted endowment fund. This percentage is applied to a 12-quarter average market value of the investments at June 30 of the previous year. WQED classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment. In accordance with Act 141, WQED has adopted a written investment policy, of which a section specifically relates to the endowment fund.

Endowment fund net assets as of September 30 comprise the following:

	<u>Unrestricted Board Designated</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
September 30, 2016	\$ (125,198)	\$ 1,545,087	\$ 5,234,998	\$ 6,654,887
September 30, 2015	\$ (429,003)	\$ 1,676,666	\$ 5,234,998	\$ 6,482,661

The following table represents the change in endowment funds by net asset type for the years ended September 30, 2016 and 2015:

	<u>Unrestricted Board Designated</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets September 30, 2014	\$ (426,663)	\$ 2,131,544	\$ 5,234,998	\$ 6,939,879
Investment income, net of related expenses	82,782	134,264	-	217,046
Net depreciation	(85,122)	(305,937)	-	(391,059)
Appropriation of Endowment funds	-	(283,205)	-	(283,205)
Endowment net assets September 30, 2015	(429,003)	1,676,666	5,234,998	6,482,661
Investment income, net of related expenses	17,562	64,163	-	81,725
Net appreciation	52,528	349,593	-	402,121
Appropriation of funds	233,715	(545,335)	-	(311,620)
Endowment net assets September 30, 2016	\$ (125,198)	\$ 1,545,087	\$ 5,234,998	\$ 6,654,887

WQED MULTIMEDIA AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015

NOTE 9 - ENDOWMENT (Continued)

As of September 30, 2016 and 2015, WQED has net borrowings of \$1,917,625 from the Program Development Seed Fund, which was established as a revolving production fund from which funds could be borrowed and repaid to complete the production of programs. Original borrowings, dating from 1993 and 1996, were \$4,500,000 and have been reduced by transfers from operating funds and releases of donor restrictions. WQED intends to repay the borrowings as funds become available (See Note 2 - Liquidity and Capital Resources).

During 2011, the Board of Directors designated \$2,000,000 from the WQEX sale proceeds to establish an operating endowment. In 2014, \$1,000,000 of those funds was withdrawn in order to reduce aged payables and help with operating cash flows. This withdrawal was approved by vote of the Board of Directors. As a result, the board-designated unrestricted endowment balance was \$1,792,426 and \$1,488,621 at September 30, 2016 and 2015, respectively.

Return Objectives and Risk Parameters - WQED has adopted investment and spending policies for endowment assets that attempt to provide a reasonable level of funding to programs supported by its endowment while seeking to enhance the purchasing power of the fund's corpus by striving for long-term growth. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of a blended benchmark of equity and fixed-income peer groups.

Strategies Employed for Achieving Objectives - To satisfy its long-term rate-of-return objectives, WQED relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). WQED targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints. Investment advisors, at the discretion of the Investment Committee of the Board of Trustees, are given guidelines to the percentage that can be committed to a particular investment or investment category.

Spending Policy and Investment Objectives Related to Spending Policy - In accordance with Act 141, WQED annually transfers between 4% and 7% of the previous 12 quarters' market value average of the permanently restricted endowment fund to unrestricted net assets for use in current and future operations. In 2016 and 2015, the spendable return totaled \$545,335 and \$283,205, respectively. This spending policy is consistent with the Commonwealth of Pennsylvania's guidelines and with WQED's objective to maintain the purchasing power of the endowment assets held in perpetuity, as well as to provide additional real growth through new gifts and investment return.

NOTE 10 - EXPENSES

Expenses consist of the following as of September 30:

	<u>2016</u>	<u>2015</u>
Programs	\$ 7,415,287	\$ 8,258,271
Management and general	1,488,024	2,309,386
Membership and development	<u>2,538,494</u>	<u>2,476,258</u>
	<u>\$ 11,441,805</u>	<u>\$ 13,043,915</u>

WQED MULTIMEDIA AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015

NOTE 11 - EMPLOYEE BENEFIT PLANS

The Organization maintains a qualified salary deferral plan covering substantially all of its employees. Employees who participate may make elective contributions to the Plan, subject to IRS limitations, and WQED contributes 2% of eligible compensation. The Organization contributed approximately \$98,600 and \$103,200 to the Plan in 2016 and 2015, respectively.

NOTE 12 - GOVERNMENT CONTRACTS

The Organization receives a significant portion of its grant revenue from federal agencies. Any of the funding sources may, at its discretion, rescind funding due to budgetary reductions or request reimbursement for expenses or return of funds, or both, as a result of noncompliance by the Organization with the terms of the grants.

In 2011, the Office of Inspector General (OIG) for the Corporation for Public Broadcasting (CPB) completed an audit of CPB grants awarded to WQED for the period October 1, 2007 through September 30, 2010. The OIG proposed adjustments relating to non-federal, financial support, which, it concluded, resulted in CPB making excess grant payments ultimately totaling approximately \$759,000 through the year ended September 30, 2012. The final OIG report calls for WQED's annual CPB grants to be reduced by approximately \$152,000 per year for five fiscal years, beginning in the fiscal year ended September 30, 2013, for the excess grant payments. As a result, the Organization has accrued \$229,930 and \$331,091 at September 30, 2016 and 2015, respectively.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

WQED has employees covered under a collective bargaining agreement with the International Alliance of Theatrical Stage Employees Union. One of the agreements covering 5 employees expires on August 30, 2021. The other agreement covers eight employees and expires on April 31, 2019.

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