WQED MULTIMEDIA AND SUBSIDIARIES
Pittsburgh, Pennsylvania

Consolidated Financial Statements
For the years ended September 30, 2013 and 2012

and Independent Auditors' Report Thereon

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
WQED Multimedia and Subsidiaries
Pittsburgh, Pennsylvania

We have audited the accompanying consolidated financial statements of WQED Multimedia and Subsidiaries (WQED), which comprise the consolidated statements of financial position as of September 30, 2013 and 2012, 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, 2013 and 2012, and the changes in its net assets and its 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 24, 2014

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WQED MULTIMEDIA AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	September 30	
	2013	2012
ASSETS		
Cash and cash equivalents	$ 430,191	$ 341,060
Accounts receivable, net	238,227	301,958
Grants receivable	2,515,649	3,900,915
Pledges receivable	339,000	-
Prepaid expenses	590,583	301,471
Investments	7,461,980	6,882,183
Property and equipment, net	7,541,592	7,530,189
Total Assets	$19,117,222	$19,257,776
LIABILITIES AND NET ASSETS		
LIABILITIES		
Line of credit	$ 5,250,000	$ 5,125,000
Accounts payable and accrued liabilities	3,585,617	3,210,511
Deferred revenue	54,107	105,349
Total Liabilities	8,889,724	8,440,860
NET ASSETS		
Unrestricted	(1,552,542)	(714,141)
Temporarily restricted	6,545,042	6,296,059
Permanently restricted	5,234,998	5,234,998
Total Net Assets	10,227,498	10,816,916
Total Liabilities And Net Assets	$19,117,222	$19,257,776

See notes to the consolidated financial statements.

WQED MULTIMEDIA AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUES AND SUPPORT				
Contributed Income				
Membership	$ 4,573,966	$ 344,000	-	$ 4,917,966
Government grants and contributions	-	1,863,282	-	1,863,282
Foundation grants and contributions	78,000	2,640,576	-	2,718,576
Corporate grants and contributions	31,228	214,578	-	245,806
Sales and underwriting	1,086,090	428,800	-	1,514,890
Earned Income				
Distribution, royalties and ancillary services	1,821,562	-	-	1,821,562
Investment income	59,024	793,669	-	852,693
Other	27,067	-	-	27,067
	7,676,937	6,284,905	-	13,961,842
Net assets released from restriction	6,035,922	(6,035,922)	-	-
	13,712,859	248,983	-	13,961,842
EXPENSES AND OTHER DEDUCTIONS				
Salaries	4,312,227	-	-	4,312,227
Payroll taxes and benefits	1,343,483	-	-	1,343,483
Professional fees	775,261	-	-	775,261
Facilities	1,502,292	-	-	1,502,292
Travel and entertainment	220,289	-	-	220,289
Supplies	96,323	-	-	96,323
Marketing	109,348	-	-	109,348
Distribution and fulfillment	33,618	-	-	33,618
Membership	1,195,722	-	-	1,195,722
Other operating expense	405,564	-	-	405,564
Depreciation	855,260	-	-	855,260
Interest expense	105,102	-	-	105,102
Program acquisition	1,841,375	-	-	1,841,375
Production/project costs	1,755,396	-	-	1,755,396
	14,551,260	-	-	14,551,260
Changes In Net Assets From Continuing Operations	(838,401)	248,983	-	(589,418)
CPB Accrual	-	-	-	-
Changes in Net Assets	(838,401)	248,983	-	(589,418)
NET ASSETS				
Beginning of year	(714,141)	6,296,059	$ 5,234,998	10,816,916
End of year	$(1,552,542)	$ 6,545,042	$ 5,234,998	$ 10,227,498

2012			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
$ 4,961,870	-	-	$ 4,961,870
-	$ 3,249,090	-	3,249,090
69,764	1,831,831	-	1,901,595
35,975	362,207	-	398,182
991,698	537,400	-	1,529,098
2,182,160	-	-	2,182,160
57,845	924,389	-	982,234
45,782	-	-	45,782
8,345,094	6,904,917	-	15,250,011
5,142,749	(5,142,749)	-	-
13,487,843	1,762,168	-	15,250,011
4,415,312	-	-	4,415,312
1,194,200	-	-	1,194,200
646,650	-	-	646,650
1,592,972	-	-	1,592,972
144,890	-	-	144,890
67,212	-	-	67,212
107,284	-	-	107,284
32,829	-	-	32,829
1,234,321	-	-	1,234,321
666,444	-	-	666,444
1,115,308	-	-	1,115,308
107,985	-	-	107,985
1,918,598	-	-	1,918,598
1,346,311	-	-	1,346,311
14,590,316	-	-	14,590,316
(1,102,473)	1,762,168	-	659,695
(78,350)	-	-	(78,350)
(1,180,823)	1,762,168	-	581,345
466,682	4,533,891	$ 5,234,998	10,235,571
$ (714,141)	$ 6,296,059	$ 5,234,998	$ 10,816,916

See notes to the consolidated financial statements.

WQED MULTIMEDIA AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	$ (589,418)	$ 581,345
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	855,260	1,115,308
Net realized and unrealized gains on investments	(664,575)	(840,070)
Changes in assets and liabilities:		
Accounts receivable	63,731	(121,465)
Grants receivable	1,385,266	(871,782)
Pledge receivable	(339,000)	-
Prepaid expenses and other asssets	(289,112)	(119,122)
Accounts payable and accrued liabilities	375,106	77,007
Deferred revenue	(51,242)	51,312
Net Cash Provided By (Used In) Operating Activities	746,016	(127,467)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	1,857,431	1,466,346
Purchase of investments	(1,772,653)	(1,348,938)
Purchase of property and equipment	(866,663)	(301,801)
Net Cash Used In Investing Activities	(781,885)	(184,393)
CASH FLOWS FROM FINANCING ACTIVITIES		
Line of credit, net	125,000	20,000
Net Increase (Decrease) In Cash And Cash Equivalents	89,131	(291,860)
CASH AND CASH EQUIVALENTS		
Beginning of year	341,060	632,920
End of year	$ 430,191	$ 341,060

See notes to the consolidated financial statements.

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 subsidiaries (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 two subsidiaries, The War That Made America Productions, LLC and WQED Productions, LLC. WQED is the sole member of the two LLCs. These entities share the same common mission of education and cultural radio and television programming and share common management with WQED. In July 2013, The War That Made America Productions, LLC was formally dissolved, as all activities had ceased.

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 LLCs are not liable for income taxes, and their income is not taxable to WQED.

NOTE 2 - 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, The War that Made America, LLC, 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.

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.

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, which 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 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 2013 and 2012.

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.

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 $20,000 at September 30, 2013 and 2012.

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. It is expected that substantially all of the grants will be collected within one year. As of September 30, 2013 and 2012, no allowance for uncollectible grants was considered to be necessary.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Two donors accounted for approximately 51% of the Organization's grants receivable at September 30, 2013 and 2012.

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, 2013 and 2012.

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 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, 2013 and 2012.

Compensated Absences - Employees are entitled to vacations that accumulate 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. See Note 8 to the financial statements for the fair value disclosures.

Endowment Funds - WQED's endowment consists of donor-restricted investment funds established for perpetual 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 7.

Recent Accounting Pronouncements - In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) Fair Value Measurement: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (ASU 2011-04), which provides a consistent definition of fair value to ensure that the fair value measurement and disclosure requirements are similar between U.S. generally accepted accounting principles (U.S. GAAP) and International Financial Reporting Standards (IFRS). This standard changes certain fair value measurement principles and enhances the disclosure requirements. ASU 2011-04 is effective for annual periods beginning after December 15, 2011 and will be applied prospectively. WQED adopted ASU 2011-04 without a material impact to its combined financial statements and related disclosures.

The FASB has issued ASU No. 2013-03 Financial Instruments: Clarifying the Scope and Applicability of a Particular Disclosure to Nonpublic Entities (ASU 2013-03), which clarifies the scope and applicability of a disclosure exemption that is specific to private companies and not-for-profit organizations that resulted from the issuance of ASU 2011-04. Additionally, ASU 2013-03 clarifies that the requirement to disclose "the level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2, or 3)" does not apply to private companies and nonpublic not-for-profit organizations for items that are not measured at fair value in the statement of financial position, but for which fair value is disclosed. ASU 2013-03 was effective upon issuance.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The FASB has issued ASU No. 2013-06 Services Received from Personnel of an Affiliate a consensus of the FASB Emerging Issues Task Force. The objective of this update is specify the guidance that not-for-profit entities apply for recognizing and measuring services received from personnel of an affiliate. This requires a recipient not-for-profit entity to recognize all services received from personnel of an affiliate that directly benefit the recipient not-for-profit entity. Those services should be measured at the cost recognized by the affiliate for the personnel providing those services. However, if measuring a service received from personnel of an affiliate at cost will significantly overstate the value of the service received, the recipient not-for-profit entity may elect to recognize that service received at either the cost recognized by the affiliate for the personnel providing that service or the fair value of that service. ASU 2013-06 is effective for fiscal years beginning after June 15, 2014. WQED has not yet determined the effect of ASU 2013-06.

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 24, 2014, which is the date that the financial statements were available to be issued.

NOTE 3 - INVESTMENTS

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

	2013		2012	
	Market	Cost	Market	Cost
Money market	$ 153,319	$ 153,319	$ 186,503	$ 186,503
Exchange traded funds:				
Equity	2,189,353	1,746,784	1,801,235	1,654,666
Fixed income	-	-	1,110,706	1,000,651
Mutual funds:				
Equity	1,253,550	1,022,474	1,012,691	916,967
Fixed income	2,086,598	2,114,661	1,022,071	981,402
Common stock:				
Consumer discretionary	256,847	199,275	198,840	149,280
Consumer staples	143,890	114,838	256,397	168,082
Energy	221,574	207,732	214,155	187,779
Financial	297,571	252,015	393,052	335,826
Health care	179,421	154,088	92,787	80,016
Industrials	195,352	173,447	37,057	31,040
Information technology	371,465	263,329	430,566	282,023
Materials	46,520	40,182	76,150	80,655
Telecommunication services	51,317	28,781	49,973	22,992
Utilities	15,203	15,036	-	-
	$ 7,461,980	$ 6,485,961	$ 6,882,183	$ 6,077,882

NOTE 3 - INVESTMENTS (Continued)

Investment income is composed of the following:

	2013	2012
Interest and dividends	$ 188,361	$ 142,164
Realized gain on sale of investments	492,514	60,493
Total realized income	680,875	202,657
Unrealized appreciation	171,818	779,577
Net investment income	$ 852,693	$ 982,234

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.

In August 2011, WQED became a member in GiST-iT LLC (GiST-iT). At September 30, 2011, WQED owns 150,000 units or approximately 23% of the units outstanding of GiST-iT with a provision that it will not be diluted below a 10% interest in GiST-iT. WQED has limited liability for GiST-iT's obligations and debt, and the net book profits and losses are ratably allocated to GiST-iT's members in accordance with their ownership percentage. WQED did not make any capital contributions to GiST-iT, and GiST-iT did not conduct any significant operations in 2013 and 2012.

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at September 30:

	2013	2012
Land	$ 300	$ 300
Transmitter:		
Building	328,454	328,454
Tower	3,352,415	3,352,415
Studio building and improvements	12,258,847	12,140,011
Technical equipment	6,732,005	6,695,408
Office furniture and equipment	3,213,128	3,014,671
Construction in process	549,118	36,345
	26,434,267	25,567,604
Less: Accumulated depreciation	18,892,675	18,037,415
	$ 7,541,592	$ 7,530,189

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.

NOTE 4 - PROPERTY AND EQUIPMENT (Continued)

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 $686,585 and $941,499 as of September 30, 2013 and 2012, respectively.

NOTE 5 - LINE-OF-CREDIT NOTE

In June 2013, WQED entered into a revolving credit loan agreement that provides for borrowings up to $6,000,000, through a maturity date of June 30, 2015. The note has a rate equal to the one-month LIBOR rate (0.18% at September 30, 2013) plus 1%, fully floating; provided, however, that in no event shall the rate be less than 2%.

The line is collateralized by substantially all assets of WQED and by the marketable securities of WQED, which at all times must be equal to or greater than one hundred fifteen percent (115%) of all outstanding amounts under this agreement. At September 30, 2013, $5,250,000 was outstanding under this agreement.

Prior to the June 2013 line-of-credit agreement, WQED had a revolving line-of-credit agreement that provided for borrowing up to $5,500,000. The agreement is composed of two tranches. Tranche A is equal to seventy-five percent (75%) of WQED's marketable securities collateral, as defined in the agreement. Tranche B is equal to the difference between the outstanding amounts under the agreement minus the amount of Tranche A. At September 30, 2012, approximately $4,503,532 was outstanding under Tranche A, and $621,468 was outstanding under Tranche B. Tranche A has a rate equal to the one-month LIBOR rate (0.24% at September 30, 2012) plus 1%; provided, however, that in no event shall the rate be less than 2%. Tranche B has a rate equal to the one-month LIBOR rate plus 2%; provided, however, that in no event shall the rate be less than 3½%. At September 30, 2012, $4,503,532 was outstanding under Tranche A and $621,468 was outstanding under Tranche B.

Interest expense incurred and paid was $105,102 and $107,985 for 2013 and 2012, respectively.

NOTE 6 - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

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

	2013	2012
Capital	$ 645,453	$ 729,024
Program production and development	5,686,432	4,847,675
Education	121,707	568,540
FM radio	48,895	89,900
Membership development	42,555	60,920
	$ 6,545,042	$ 6,296,059

NOTE 6 - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS (Continued)

Permanently restricted net assets are restricted to investment in perpetuity. 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:

	2013	2012
WQED-FM Endowment Fund	$ 510,000	$ 510,000
Bessie F. Anathan Scholarship Fund	50,000	50,000
Program Development Seed Fund	4,674,998	4,674,998
	$ 5,234,998	$ 5,234,998

Net assets released from restrictions consist of the following:

	2013	2012
Program production and development	$ 5,441,486	$ 4,750,861
Capital projects	466,071	261,614
Other	128,365	130,274
	$ 6,035,922	$ 5,142,749

NOTE 7 - 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.

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 Trustees 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 three years' 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 and subsequent 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.

NOTE 7 - ENDOWMENT (Continued)

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
September 30, 2013	$ 579,280	$ 1,647,702	$ 5,234,998	$ 7,461,980
September 30, 2012	$ 579,153	$ 1,068,032	$ 5,234,998	$ 6,882,183

The following table represents the change in endowment funds by net asset type for the years ended September 30, 2013 and 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets September 30, 2011	$ 581,342	$ 343,181	$ 5,234,998	$ 6,159,521
Investment income, net of related expenses	57,400	83,579	-	140,979
Net appreciation	(747)	840,817	-	840,070
(Appropriation) recovery of endowment funds	(58,842)	(199,545)	-	(258,387)
Endowment net assets September 30, 2012	579,153	1,068,032	5,234,998	6,882,183
Investment income, net of related expenses	58,916	129,445	-	188,361
Net appreciation	107	664,225	-	664,332
(Appropriation) recovery of endowment funds	(58,896)	(214,000)	-	(272,896)
Endowment net assets September 30, 2013	$ 579,280	$ 1,647,702	$ 5,234,998	$ 7,461,980

During 2011, the Board of Directors designated $2,000,000 from the WQEX sale proceeds to establish an operating endowment, and to restore the unrestricted endowment funds, which were negative due to declines in market value and net borrowings from the endowment funds, which were approved by the Board of Directors during 1993 to assist in financing operations.

NOTE 7 - ENDOWMENT (Continued)

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 three years’ market value average of the permanently restricted endowment fund to unrestricted net assets for use in current and future operations. In 2013 and 2012, the spendable return totaled $214,000 and $199,545, 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 8 - FAIR VALUE MEASUREMENTS

All of WQED’s investments according to the fair value hierarchy were valued at Level 1 at September 30, 2013 and 2012.

NOTE 9 - EXPENSES

Expenses consist of the following as of September 30:

	2013	2012
Programs	$ 8,944,720	$ 8,573,274
Management and general	2,398,243	2,630,687
Development	3,208,297	3,464,705
	$ 14,551,260	$ 14,668,666

NOTE 10 - DEFINED CONTRIBUTION PLAN

The Organization maintains a qualified salary deferral plan covering substantially all of its employees. Employees to participate may make elective contributions to the Plan, subject to IRS limitations. Beginning October 1, 2011, WQED began making a voluntary 2% contribution to the plan for the majority of employees. The Organization contributed approximately $112,000 and $102,000 to the Plan in 2013 and 2012, respectively.

NOTE 11 - 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, 2011. The OIG proposed adjustments relating to non-federal, financial support, which, it concluded, resulted in CPB making excess grant payments ultimately totaling $759,332, $680,982 from awards through September 30, 2011, and $78,350 for the year ended September 30, 2012. As a result, the Organization accrued $680,982 and $78,350 at September 30, 2013 and 2012, respectively. The final OIG report calls for WQED's annual CPB grants to be reduced by approximately $152,000 over five fiscal years for these excess grant payments.

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