

WQED MULTIMEDIA AND SUBSIDIARIES
Pittsburgh, Pennsylvania

Consolidated Financial Statements
For the years ended September 30, 2014 and 2013
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, 2014 and 2013, 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, 2014 and 2013, 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 12, 2015

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WQED MULTIMEDIA AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	September 30	
	<u>2014</u>	<u>2013</u>
ASSETS		
Cash and cash equivalents	\$ 179,557	\$ 430,191
Accounts receivable, net	177,078	238,227
Grants receivable	2,761,455	2,515,649
Pledges receivable	1,138,612	339,000
Prepaid expenses	413,805	590,583
Investments	7,422,675	7,461,980
Property and equipment, net	<u>7,160,359</u>	<u>7,541,592</u>
Total Assets	<u><u>\$19,253,541</u></u>	<u><u>\$19,117,222</u></u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Line of credit	\$ 5,050,000	\$ 5,250,000
Accounts payable	1,337,122	1,705,841
Accrued liabilities	1,365,393	1,879,776
Gift annuity payable	114,878	-
Deferred revenue	<u>148,642</u>	<u>54,107</u>
Total Liabilities	8,016,035	8,889,724
NET ASSETS		
Unrestricted	(2,139,992)	(1,552,542)
Temporarily restricted	8,142,500	6,545,042
Permanently restricted	<u>5,234,998</u>	<u>5,234,998</u>
Total Net Assets	<u>11,237,506</u>	<u>10,227,498</u>
Total Liabilities And Net Assets	<u><u>\$19,253,541</u></u>	<u><u>\$19,117,222</u></u>

See notes to the consolidated financial statements.

WOED MULTIMEDIA AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

	2014			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
OPERATING REVENUES AND SUPPORT				
Contributed Income:				
Membership	\$ 4,349,536	\$ 1,250,061	-	\$ 5,599,597
Government grants and contributions	-	2,602,409	-	2,602,409
Foundation grants and contributions	37,000	1,983,681	-	2,020,681
Corporate grants and contributions	97,772	535,000	-	632,772
Sales and underwriting	1,220,873	692,000	-	1,912,873
Earned Income:				
Distribution, royalties and ancillary services	1,668,721	-	-	1,668,721
Investment income	63,974	733,842	-	797,816
Other	55,365	-	-	55,365
	<u>7,493,241</u>	<u>7,796,993</u>	<u>-</u>	<u>15,290,234</u>
Net assets released from restriction	<u>6,199,535</u>	<u>(6,199,535)</u>	<u>-</u>	<u>-</u>
	<u>13,692,776</u>	<u>1,597,458</u>	<u>-</u>	<u>15,290,234</u>
EXPENSES AND OTHER DEDUCTIONS				
Salaries	4,111,332	-	-	4,111,332
Payroll taxes and benefits	1,388,506	-	-	1,388,506
Professional fees	908,781	-	-	908,781
Facilities	1,508,543	-	-	1,508,543
Travel and entertainment	175,981	-	-	175,981
Supplies	69,134	-	-	69,134
Marketing	48,276	-	-	48,276
Distribution and fulfillment	26,991	-	-	26,991
Membership	1,109,655	-	-	1,109,655
Other operating expense	401,090	-	-	401,090
Depreciation	769,956	-	-	769,956
Interest expense	102,425	-	-	102,425
Program acquisition	1,878,497	-	-	1,878,497
Production/project costs	1,781,059	-	-	1,781,059
	<u>14,280,226</u>	<u>-</u>	<u>-</u>	<u>14,280,226</u>
Changes in Net Assets	(587,450)	1,597,458	-	1,010,008
NET ASSETS				
Beginning of year	<u>(1,552,542)</u>	<u>6,545,042</u>	<u>\$ 5,234,998</u>	<u>10,227,498</u>
End of year	<u><u>\$(2,139,992)</u></u>	<u><u>\$ 8,142,500</u></u>	<u><u>\$ 5,234,998</u></u>	<u><u>\$ 11,237,506</u></u>

2013

<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
\$ 4,573,966	\$ 344,000	-	\$ 4,917,966
-	1,863,282	-	1,863,282
78,000	2,640,576	-	2,718,576
31,228	214,578	-	245,806
1,086,090	428,800	-	1,514,890
1,815,585	-	-	1,815,585
59,024	793,669	-	852,693
33,044	-	-	33,044
<u>7,676,937</u>	<u>6,284,905</u>	<u>-</u>	<u>13,961,842</u>
6,035,922	(6,035,922)	-	-
<u>13,712,859</u>	<u>248,983</u>	<u>-</u>	<u>13,961,842</u>
4,312,227	-	-	4,312,227
1,343,483	-	-	1,343,483
775,261	-	-	775,261
1,502,292	-	-	1,502,292
220,289	-	-	220,289
96,323	-	-	96,323
109,348	-	-	109,348
33,618	-	-	33,618
1,195,722	-	-	1,195,722
405,564	-	-	405,564
855,260	-	-	855,260
105,102	-	-	105,102
1,841,375	-	-	1,841,375
1,755,396	-	-	1,755,396
<u>14,551,260</u>	<u>-</u>	<u>-</u>	<u>14,551,260</u>
(838,401)	248,983	-	(589,418)
<u>(714,141)</u>	<u>6,296,059</u>	<u>\$ 5,234,998</u>	<u>10,816,916</u>
<u>\$(1,552,542)</u>	<u>\$ 6,545,042</u>	<u>\$ 5,234,998</u>	<u>\$ 10,227,498</u>

See notes to the consolidated financial statements.

WQED MULTIMEDIA AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 1,010,008	\$ (589,418)
Adjustments to reconcile changes in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	769,956	855,260
Loss on sale of property and equipment	44,054	-
Net realized and unrealized gains on investments	(602,609)	(664,575)
Changes in assets and liabilities:		
Accounts receivable	61,149	63,731
Grants receivable	(245,806)	1,385,266
Pledge receivable	(799,612)	(339,000)
Prepaid expenses and other assets	176,778	(289,112)
Accounts payable	(368,719)	375,106
Accrued liabilities	(514,383)	-
Gift annuity payable	114,878	-
Deferred revenue	94,535	(51,242)
Net Cash (Used In) Provided By Operating Activities	<u>(259,771)</u>	<u>746,016</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	1,633,903	1,857,431
Purchase of investments	(991,989)	(1,772,653)
Purchase of property and equipment	(432,777)	(866,663)
Net Cash Provided By (Used In) Investing Activities	<u>209,137</u>	<u>(781,885)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Line of credit, net	<u>(200,000)</u>	<u>125,000</u>
Net (Decrease) Increase In Cash And Cash Equivalents	(250,634)	89,131
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>430,191</u>	<u>341,060</u>
End of year	<u><u>\$ 179,557</u></u>	<u><u>\$ 430,191</u></u>

See notes to the consolidated financial statements.

WQED MULTIMEDIA AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013

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 - LIQUIDITY AND CAPITAL RESOURCES

As of and for the year ended September 30, 2014, WQED has negative unrestricted net assets totaling \$2,139,992, and a net negative change in unrestricted net assets totaling \$587,450. In addition, WQED's line of credit matures on June 30, 2015. Management has instituted a cost reduction plan that reduces certain operating costs, and is engaged in fundraising efforts to raise additional capital. In addition, management is working with its financial institution to renew its line of credit ahead of the maturity date of June 30, 2015.

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, 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.

WOED MULTIMEDIA AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013

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 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 2014 and 2013.

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.

WOED MULTIMEDIA AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013

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 \$44,000 and \$20,000 at September 30, 2014 and 2013, 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, 2014 and 2013, no allowance for uncollectible grants was considered to be necessary.

Two donors accounted for approximately 68% and 64% of the Organization's grants receivable at September 30, 2014 and 2013, 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, 2014 and 2013.

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 SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013

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, 2014 and 2013.

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, 2014 and 2013.

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.

WOED MULTIMEDIA AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements - The Financial Accounting Standards Board (FASB) has issued Accounting Standards Update (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 to 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 is assessing the impact that ASU 2013-06 will have on its consolidated financial statements.

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.

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 12, 2015, 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>2014</u>	<u>2013</u>
Gross pledges receivable	\$ 1,138,612	\$ 339,000
Less allowance	<u>-</u>	<u>-</u>
	<u>\$ 1,138,612</u>	<u>\$ 339,000</u>
Amounts due in:		
Less than one year	\$ 324,143	\$ 99,245
One to five years	<u>814,469</u>	<u>239,755</u>
	<u>\$ 1,138,612</u>	<u>\$ 339,000</u>

WQED MULTIMEDIA AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013

NOTE 5 - INVESTMENTS

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

	2014		2013	
	Market	Cost	Market	Cost
Money market	\$ 318,742	\$ 318,742	\$ 153,319	\$ 153,319
Exchange traded funds:				
Equity	1,657,476	1,179,889	2,189,353	1,746,784
Mutual funds:				
Equity	1,425,247	1,208,662	1,253,550	1,022,474
Fixed income	2,112,176	2,122,051	2,086,598	2,114,661
Common stock:				
Consumer discretionary	282,639	232,844	256,847	199,275
Consumer staples	165,197	143,804	143,890	114,838
Energy	186,454	175,759	221,574	207,732
Financial	316,641	264,617	297,571	252,015
Health care	190,978	162,142	179,421	154,088
Industrials	217,957	181,645	195,352	173,447
Information technology	425,219	326,410	371,465	263,329
Materials	44,263	35,763	46,520	40,182
Telecommunication services	47,211	25,715	51,317	28,781
Utilities	25,304	24,731	15,203	15,036
Other Equity	7,171	7,629	-	-
	<u>\$ 7,422,675</u>	<u>\$ 6,410,403</u>	<u>\$ 7,461,980</u>	<u>\$ 6,485,961</u>

Investment income is composed of the following:

	2014	2013
Interest and dividends	\$ 195,207	\$ 188,361
Realized gain on sale of investments	584,520	492,514
Total realized income	779,727	680,875
Unrealized appreciation	18,089	171,818
Net investment income	<u>\$ 797,816</u>	<u>\$ 852,693</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.

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 2014 and 2013.

WQED MULTIMEDIA AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at September 30:

	<u>2014</u>	<u>2013</u>
Transmitter:		
Building	\$ 328,454	\$ 328,454
Tower	3,308,875	3,352,415
Studio building and improvements	12,763,228	12,258,847
Technical equipment	5,932,166	6,732,005
Office furniture and equipment	<u>2,973,583</u>	<u>3,213,128</u>
	25,306,306	25,884,849
Less: Accumulated depreciation	18,166,365	18,892,675
Construction in process	20,118	549,118
Land	<u>300</u>	<u>300</u>
	<u>\$ 7,160,359</u>	<u>\$ 7,541,592</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 \$549,868 and \$686,585 as of September 30, 2014 and 2013, respectively.

NOTE 7 - 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 (0.15% at September 30, 2014) 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, 2014, \$5,050,000 was outstanding under this agreement.

Interest expense incurred and paid was \$102,425 and \$105,102 for 2014 and 2013, respectively.

WOED MULTIMEDIA AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 8 - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

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

	<u>2014</u>	<u>2013</u>
Capital	\$ 717,831	\$ 645,453
Program production and development	6,862,267	5,686,432
Education	389,617	121,707
FM radio	105,822	48,895
Membership development	<u>66,963</u>	<u>42,555</u>
	<u>\$ 8,142,500</u>	<u>\$ 6,545,042</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>2014</u>	<u>2013</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>2014</u>	<u>2013</u>
Program production and development	\$ 5,956,321	\$ 5,441,486
Capital projects	172,623	466,071
Other	<u>70,591</u>	<u>128,365</u>
	<u>\$ 6,199,535</u>	<u>\$ 6,035,922</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 SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 9 - ENDOWMENT (Continued)

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 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</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
September 30, 2014	\$ (426,663)	\$ 2,131,544	\$ 5,234,998	\$ 6,939,879
September 30, 2013	\$ 579,280	\$ 1,647,702	\$ 5,234,998	\$ 7,461,980

The following table represents the change in endowment funds by net asset type for the years ended September 30, 2014 and 2013:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets				
September 30, 2012	\$ 579,153	\$ 1,068,032	\$ 5,234,998	\$ 6,882,183
Investment income, net of related expenses	20	129,445	-	129,465
Net appreciation	107	664,225	-	664,332
Appropriation of endowment funds	-	(214,000)	-	(214,000)
Endowment net assets				
September 30, 2013	579,280	1,647,702	5,234,998	7,461,980
Investment income, net of related expenses	(54,264)	179,554	-	125,290
Net appreciation	48,321	554,288	-	602,609
Appropriation of endowment funds	(1,000,000)	(250,000)	-	1,250,000
Endowment net assets				
September 30, 2014	\$ (426,663)	\$ 2,131,544	\$ 5,234,998	\$ 6,939,879

WQED MULTIMEDIA AND SUBSIDIARIES
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NOTE 9 - ENDOWMENT (Continued)

As of September 30, 2014, WQED has net borrowing from endowment funds totaling \$1,917,625, which was approved by the Board of Directors in 1993 and 1996 to meet the working capital requirements of WQED. The original borrowings were \$4,500,000 and have been reduced by transfers from operating funds and releases of donor restrictions totaling \$2,582,375. WQED intends to repay the borrowings as funds become available.

During 2011, the Board of Directors designated \$2,000,000 from the WQEX sale proceeds to establish an operating endowment. In the current year, \$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 \$1,541,970 at September 30, 2014.

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 2014 and 2013, the spendable return totaled \$250,000 and \$214,000, 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>2014</u>	<u>2013</u>
Programs	\$ 8,888,316	\$ 8,944,720
Management and general	2,383,070	2,398,243
Development	3,008,840	3,208,297
	<u>\$ 14,280,226</u>	<u>\$ 14,551,260</u>

WQED MULTIMEDIA AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 11 - DEFINED CONTRIBUTION PLAN

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. Beginning October 1, 2011, WQED began making a voluntary 2% contribution to the plan for the majority of employees. The Organization contributed approximately \$107,300 and \$102,000 to the Plan in 2014 and 2013, 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 \$759,332, \$680,982 from awards through September 30, 2011, and \$78,350 for 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 the next five fiscal years, beginning in the fiscal year ended September 30, 2013, for the excess grant payments. As a result, the Organization has accrued \$455,598 and \$607,465 at September 30, 2014 and 2013, respectively.

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