

WQED MULTIMEDIA AND SUBSIDIARIES

Pittsburgh, Pennsylvania

Consolidated Financial Statements  
And  
Supplementary Financial Information  
For the years ended September 30, 2012 and 2011  
  
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 statement of financial position of WQED Multimedia and Subsidiaries (WQED) as of September 30, 2012 and the related consolidated statements of activities and cash flows for the year then ended. These consolidated financial statements are the responsibility of WQED's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The consolidated financial statements of WQED as of and for the year ended September 30, 2011 were audited by other auditors whose report dated February 23, 2012 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of WQED's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of WQED as of September 30, 2012 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidated schedule of expenses on Page 19 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Schneider Downs & Co., Inc.*

Pittsburgh, Pennsylvania  
March 6, 2013

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WQED MULTIMEDIA AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	September 30	
	2012	2011
<b>ASSETS</b>		
Cash and cash equivalents	\$ 341,060	\$ 632,920
Accounts receivable, net	301,958	180,493
Grants receivable	3,900,915	3,029,133
Prepaid expenses	301,471	182,349
Investments	6,882,183	6,159,521
Property and equipment, net	7,530,189	8,343,696
Total Assets	<u>\$19,257,776</u>	<u>\$18,528,112</u>
 <b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Line of credit	\$ 5,125,000	\$ 5,105,000
Accounts payable and accrued liabilities	3,210,511	3,133,504
Deferred revenue	105,349	54,037
Total Liabilities	8,440,860	8,292,541
 <b>NET ASSETS</b>		
Unrestricted	(714,141)	466,682
Temporarily restricted	6,296,059	4,533,891
Permanently restricted	5,234,998	5,234,998
Total Net Assets	<u>10,816,916</u>	<u>10,235,571</u>
Total Liabilities And Net Assets	<u>\$19,257,776</u>	<u>\$18,528,112</u>

See notes to the consolidated financial statements.

WQED MULTIMEDIA AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

	2012			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>OPERATING REVENUES AND SUPPORT</b>				
Contributed Income				
Membership	\$ 4,961,870	-	-	\$ 4,961,870
Government grants and contributions	-	\$ 3,249,090	-	3,249,090
Foundation grants and contributions	69,764	1,831,831	-	1,901,595
Corporate grants and contributions	35,975	362,207	-	398,182
Sales and underwriting	991,698	537,400	-	1,529,098
Earned Income				
Distribution, royalties and ancillary services	2,182,160	-	-	2,182,160
Investment income (loss)	57,845	924,389	-	982,234
Other	45,782	-	-	45,782
	8,345,094	6,904,917	-	15,250,011
Net assets released from restriction	5,142,749	(5,142,749)	-	-
	13,487,843	1,762,168	-	15,250,011
<b>EXPENSES AND OTHER DEDUCTIONS</b>				
Salaries	4,415,312	-	-	4,415,312
Payroll taxes and benefits	1,194,200	-	-	1,194,200
Professional fees	646,650	-	-	646,650
Facilities	1,592,972	-	-	1,592,972
Travel and entertainment	144,890	-	-	144,890
Supplies	67,212	-	-	67,212
Marketing	107,284	-	-	107,284
Distribution and fulfillment	32,829	-	-	32,829
Membership	1,234,321	-	-	1,234,321
Other operating expense	666,444	-	-	666,444
Depreciation	1,115,308	-	-	1,115,308
Interest expense	107,985	-	-	107,985
Program acquisition	1,918,598	-	-	1,918,598
Production/project costs	1,346,311	-	-	1,346,311
	14,590,316	-	-	14,590,316
Changes In Net Assets From Continuing Operations	(1,102,473)	1,762,168	-	659,695
Reversal of Merit Accrual	-	-	-	-
CPB Accrual	(78,350)	-	-	(78,350)
Loss on Disposal of Assets	-	-	-	-
Gains From Discontinued Operations	-	-	-	-
Changes in Net Assets	(1,180,823)	1,762,168	-	581,345
<b>NET ASSETS</b>				
Beginning of year	466,682	4,533,891	\$ 5,234,998	10,235,571
End of year	\$ (714,141)	\$ 6,296,059	\$ 5,234,998	\$ 10,816,916

## 2011

<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
\$ 5,475,151	-	-	\$ 5,475,151
-	\$ 1,742,799	-	1,742,799
652,353	2,795,318	-	3,447,671
15,098	385,300	-	400,398
863,982	292,763	-	1,156,745
2,996,443	-	-	2,996,443
(29,556)	(118,516)	-	(148,072)
53,255	-	-	53,255
<u>10,026,726</u>	<u>5,097,664</u>	<u>-</u>	<u>15,124,390</u>
<u>4,629,281</u>	<u>(4,629,281)</u>	<u>-</u>	<u>-</u>
<u>14,656,007</u>	<u>468,383</u>	<u>-</u>	<u>15,124,390</u>
4,435,346	-	-	4,435,346
1,201,032	-	-	1,201,032
424,220	-	-	424,220
1,411,992	-	-	1,411,992
107,733	-	-	107,733
34,357	-	-	34,357
176,288	-	-	176,288
1,354,980	-	-	1,354,980
1,239,537	-	-	1,239,537
688,478	-	-	688,478
1,238,865	-	-	1,238,865
122,241	-	-	122,241
2,042,244	-	-	2,042,244
1,434,744	-	-	1,434,744
<u>15,912,057</u>	<u>-</u>	<u>-</u>	<u>15,912,057</u>
(1,256,050)	468,383	-	(787,667)
250,000	-	-	250,000
(680,982)	-	-	(680,982)
(92,549)	-	-	(92,549)
<u>2,323,699</u>	<u>-</u>	<u>-</u>	<u>2,323,699</u>
<u>544,118</u>	<u>468,383</u>	<u>-</u>	<u>1,012,501</u>
<u>(77,436)</u>	<u>4,065,508</u>	<u>\$ 5,234,998</u>	<u>9,223,070</u>
<u>\$ 466,682</u>	<u>\$ 4,533,891</u>	<u>\$ 5,234,998</u>	<u>\$ 10,235,571</u>

See notes to the consolidated financial statements.

WQED MULTIMEDIA AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Changes in net assets	\$ 581,345	\$ 1,012,501
Adjustments to reconcile changes in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	1,115,308	1,238,865
Gain on sale of division	-	(2,021,564)
Loss on sale of property and equipment	-	92,549
Net realized and unrealized (gains) losses on investments	(840,070)	253,524
Changes in assets and liabilities:		
Accounts receivable	(121,465)	344,054
Grants receivable	(871,782)	(620,663)
Prepaid expenses and other assets	(119,122)	50,867
Accounts payable and accrued liabilities	77,007	(147,098)
Deferred revenue	51,312	(17,368)
Net Cash (Used In) Provided By Operating Activities	<u>(127,467)</u>	<u>185,667</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of investments	1,466,346	1,944,222
Purchase of investments	(1,348,938)	(3,899,062)
Net proceeds on sale of division	-	2,829,421
Proceeds from sale of property and equipment	-	40,000
Purchase of property and equipment	(301,801)	(433,152)
Net Cash (Used In) Provided By Investing Activities	<u>(184,393)</u>	<u>481,429</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Line of credit, net	<u>20,000</u>	<u>(95,000)</u>
Net (Decrease) Increase In Cash And Cash Equivalents	(291,860)	572,096
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	<u>632,920</u>	<u>60,824</u>
End of year	<u>\$ 341,060</u>	<u>\$ 632,920</u>

See notes to the consolidated financial statements.



WQED MULTIMEDIA AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2012 AND 2011

NOTE 1 - ORGANIZATION

WQED Multimedia (WQED) is a nonprofit corporation whose purpose is to engage in the broadcasting of noncommercial educational and cultural radio and television programming. 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.

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.

WOED MULTIMEDIA AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2012 AND 2011

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 2012 and 2011.

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 and \$42,000 at September 30, 2012 and 2011, respectively.

WQED MULTIMEDIA AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2012 AND 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Grants Receivable - Promises to give, primarily for temporarily restricted net assets, are recognized as revenues or gains in the period the promise is received. Promises 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, 2012 and 2011, no allowance for uncollectible grants was considered to be necessary.

Two donors accounted for approximately 51% and 68% of the Organization's grants receivable at September 30, 2012 and 2011, respectively.

Conditional promises to give are recognized when the conditions on which they depend are substantially met. There were no conditional promises to give at September 30, 2012 and 2011.

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, 2012 and 2011.

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.

WQED MULTIMEDIA AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2012 AND 2011

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 Foundation 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.

Reclassifications - Certain reclassifications have been made to the 2011 consolidated financial statements to conform with the 2012 presentation.

Recent Accounting Pronouncements - In May 2011, the FASB issued ASU No. 2011-04, Fair Value Measurement: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS. This ASU provides a consistent definition of fair value to ensure that the fair value measurement and disclosure requirements are similar between U.S. GAAP and IFRS. This standard changes certain fair value measurement principles and enhances the disclosure requirements. ASU No. 2011-04 is effective for interim and annual periods beginning after December 15, 2011 and should be applied prospectively. WQED does not anticipate that the new requirements will significantly impact 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 6, 2013, which is the date that the financial statements were available to be issued.

WOED MULTIMEDIA AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2012 AND 2011

NOTE 3 - INVESTMENTS

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

	2012		2011	
	Market	Cost	Market	Cost
Money market	\$ 186,503	\$ 186,503	\$ 1,019,366	\$ 1,019,366
Exchange traded funds:				
Equity	1,801,235	1,654,666	1,261,376	1,405,298
Fixed income	1,110,706	1,000,651	1,083,773	1,000,651
Mutual funds:				
Equity	1,012,691	916,967	482,094	471,957
Fixed income	1,022,071	981,402	854,934	832,192
Common stock:				
Consumer discretionary	198,840	149,280	136,566	140,334
Consumer staples	256,397	168,082	215,165	178,623
Energy	214,155	187,779	184,828	196,630
Financial	393,052	335,826	308,797	333,562
Health care	92,787	80,016	169,289	169,342
Industrials	37,057	31,040	44,894	46,834
Information technology	430,566	282,023	313,362	264,890
Materials	76,150	80,655	42,737	49,277
Telecommunication services	49,973	22,992	42,340	25,842
	\$ 6,882,183	\$ 6,077,882	\$ 6,159,521	\$ 6,134,798

Investment income (loss) is composed of the following:

	2012	2011
Interest and dividends	\$ 142,164	\$ 105,452
Realized gain on sale of investments	60,493	35,595
Total realized income	202,657	141,047
Unrealized gain (loss)	779,577	(289,119)
Net investment income (loss)	\$ 982,234	\$ (148,072)

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 SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2012 AND 2011

NOTE 3 - INVESTMENTS (Continued)

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 2012.

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at September 30:

	<u>2012</u>	<u>2011</u>
Land	\$ 300	\$ 300
Transmitter:		
Building	328,454	328,454
Tower	3,352,415	3,317,915
Studio building and improvements	12,140,011	11,928,706
Technical equipment	6,695,408	6,665,999
Office furniture and equipment	3,014,671	2,993,756
Construction in process	<u>36,345</u>	<u>30,673</u>
	25,567,604	25,265,803
Less: Accumulated depreciation	<u>18,037,415</u>	<u>16,922,107</u>
	<u>\$ 7,530,189</u>	<u>\$ 8,343,696</u>

The Organization 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, the Organization 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 Organization 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 \$941,499 and \$1,282,578 as of September 30, 2012 and 2011, respectively.

NOTE 5 - LINE OF CREDIT

WQED has a revolving credit loan agreement that provides for borrowings 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.

WQED MULTIMEDIA AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2012 AND 2011

NOTE 5 - LINE OF CREDIT (Continued)

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%.

The revolving credit loan agreement is scheduled to expire in March 2013. The line is collateralized by substantially all assets of WQED. Under the credit agreement, WQED is subject to various covenants that, among other things, require it to maintain certain financial results. At September 30, 2012, WQED was in violation of a financial covenant requiring WQED to have net assets exceeding \$11,000,000. Subsequent to year-end, WQED obtained a waiver from the financial institution that currently holds the line of credit, waiving it of this requirement at September 30, 2012.

Interest expense incurred and paid was \$107,985 and \$122,241 for 2012 and 2011, respectively.

NOTE 6 - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

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

	<u>2012</u>	<u>2011</u>
Capital	\$ 729,024	\$ 589,582
Program production and development	4,847,675	3,718,421
Education	568,540	50,000
FM radio	89,900	135,694
Membership development	<u>60,920</u>	<u>31,194</u>
	<u>\$ 6,296,059</u>	<u>\$ 4,533,891</u>

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:

	<u>2012</u>	<u>2011</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>

WQED MULTIMEDIA AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2012 AND 2011

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

Net assets released from restrictions consist of the following:

	<u>2012</u>	<u>2011</u>
Program production and development	\$ 4,750,861	\$ 4,167,878
Capital projects	261,614	339,217
Other	<u>130,274</u>	<u>122,186</u>
	<u>\$ 5,142,749</u>	<u>\$ 4,629,281</u>

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.

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, 2012	\$ <u>579,153</u>	\$ <u>1,068,032</u>	\$ <u>5,234,998</u>	\$ <u>6,882,183</u>
September 30, 2011	\$ <u>581,342</u>	\$ <u>343,181</u>	\$ <u>5,234,998</u>	\$ <u>6,159,521</u>



WOED MULTIMEDIA AND SUBSIDIARIES  
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NOTE 7 - ENDOWMENT (Continued)

The following table represents the change in endowment funds by net asset type for the years ended September 30, 2012 and 2011:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets September 30, 2010	\$ (820,636)	\$ 43,843	\$ 5,234,998	\$ 4,458,205
Contributions	2,000,000	-	-	2,000,000
Investment income, net of related expenses	2,998	102,454	-	105,452
Net depreciation	-	(253,524)	-	(253,524)
(Appropriation) recovery of endowment funds	<u>(601,020)</u>	<u>450,408</u>	<u>-</u>	<u>(150,612)</u>
Endowment net assets September 30, 2011	581,342	343,181	5,234,998	6,159,521
Contributions	-	-	-	-
Investment income, net of related expenses	57,400	83,579	-	104,979
Net appreciation	(747)	840,817	-	840,070
(Appropriation) recovery of endowment funds	<u>(58,892)</u>	<u>(199,545)</u>	<u>-</u>	<u>(258,387)</u>
Endowment net assets September 30, 2012	<u>\$ 579,153</u>	<u>\$ 1,068,032</u>	<u>\$ 5,234,998</u>	<u>\$ 6,882,183</u>

The balance owed from the unrestricted balance within the unrestricted endowment fund represents 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. As of September 30, 2011, these borrowings had been repaid to the endowment fund.

During 2011, the Board of Directors designated \$2,000,000 from the WQEX sale proceeds to establish an operating endowment.

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.

WQED MULTIMEDIA AND SUBSIDIARIES  
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NOTE 7 - ENDOWMENT (Continued)

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 2012 and 2011, the spendable return totaled \$199,545 and \$-0-, 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

The valuation of WQED's investments according to the fair value hierarchy at September 30 is as follows:

	2012			Total
	Level 1	Level 2	Level 3	
Money market	\$ 186,503	-	-	\$ 186,503
Exchange traded funds:				
Equity	1,801,235	-	-	1,801,235
Fixed income	1,110,706	-	-	1,110,706
Mutual funds:				
Equity	1,012,691	-	-	1,012,691
Fixed income	1,022,071	-	-	1,022,071
Common stock:				
Consumer discretionary	198,840	-	-	198,840
Consumer staples	256,397	-	-	256,397
Energy	214,155	-	-	214,155
Financial	393,052	-	-	393,052
Health care	92,787	-	-	92,787
Industrials	37,057	-	-	37,057
Information technology	430,566	-	-	430,566
Materials	76,150	-	-	76,150
	49,973	-	-	49,973
Total	\$ 6,882,183	-	-	\$ 6,882,183

WOED MULTIMEDIA AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2012 AND 2011

NOTE 8 - FAIR VALUE MEASUREMENTS (Continued)

	2011			
	Level 1	Level 2	Level 3	Total
Money market	\$ 1,019,366	-	-	\$ 1,019,366
Exchange traded funds:				
Equity	1,261,376	-	-	1,261,376
Fixed income	1,083,773	-	-	1,083,773
Mutual funds:				
Equity	482,094	-	-	482,094
Fixed income	854,934	-	-	854,934
Common stock:				
Consumer discretionary	136,566	-	-	136,566
Consumer staples	215,165	-	-	215,165
Energy	184,828	-	-	184,828
Financial	308,797	-	-	308,797
Health care	169,289	-	-	169,289
Industrials	44,894	-	-	44,894
Information technology	313,362	-	-	313,362
Materials	42,737	-	-	42,737
Telecommunication services	42,340	-	-	42,340
	<u>\$ 6,159,521</u>	<u>-</u>	<u>-</u>	<u>\$ 6,159,521</u>

NOTE 9 - EXPENSES

Expenses consist of the following as of September 30:

	2012	2011
Programs	\$ 8,573,274	\$ 9,699,257
Management and general	2,630,687	2,710,588
Development	3,464,705	3,616,815
	<u>14,668,666</u>	<u>16,026,660</u>
Less: Expenses included in discontinued operations	<u>-</u>	<u>114,603</u>
	<u>\$ 14,668,666</u>	<u>\$ 15,912,057</u>

WOED MULTIMEDIA AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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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 \$102,000 and \$51,000 to the Plan in 2012 and 2011, 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 \$759,332 and \$680,000 at September 30, 2012 and 2011, respectively. The final OIG report calls for WQED's annual CPB grants to be reduced by approximately \$152,000 over the next five fiscal years for these excess grant payments.

**SUPPLEMENTARY FINANCIAL INFORMATION**



WQED MULTIMEDIA AND SUBSIDIARIES

CONSOLIDATED SCHEDULES OF EXPENSES  
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Station operations	\$ 5,054,085	\$ 5,493,131
Internet services	218,370	171,366
Education resource center and projects	496,280	430,027
Distribution, royalties and ancillary services	1,184,725	2,942,502
Program production and development	2,868,060	2,080,964
Sales, underwriting and advertising	560,628	568,429
Membership/development, foundations and events	4,208,168	4,225,638
	<u>\$ 14,590,316</u>	<u>\$ 15,912,057</u>

See notes to the consolidated financial statements.

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