

WOED MULTIMEDIA AND SUBSIDIARY  
Pittsburgh, Pennsylvania

Consolidated Financial Statements  
For the years ended September 30, 2018 and 2017  
and Independent Auditors' Report Thereon



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## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
WQED Multimedia and Subsidiary  
Pittsburgh, Pennsylvania

We have audited the accompanying consolidated financial statements of WQED Multimedia and Subsidiary (WQED), which comprise the consolidated statements of financial position as of September 30, 2018 and 2017, 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 (U.S. GAAP); 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, 2018 and 2017, and the changes in their net assets and cash flows for the years then ended in accordance with U.S. GAAP.

*Schneider Downs & Co., Inc.*

Pittsburgh, Pennsylvania  
February 6, 2019

WQED MULTIMEDIA AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	<u>September 30</u>	
	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,371,043	\$ 3,832,191
Accounts receivable, net	205,952	208,583
Grants receivable	1,761,705	1,785,699
Pledges receivable	158,253	299,858
Prepaid expenses	124,839	119,128
Investments	13,103,028	9,751,274
Property and equipment, net	4,971,341	5,499,167
Total Assets	<u>\$21,696,161</u>	<u>\$21,495,900</u>
 <b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable	\$ 894,326	\$ 726,341
Accrued liabilities	679,998	1,169,189
Gift annuity payable	117,652	152,152
Deferred revenue	286,091	108,032
Total Liabilities	1,978,067	2,155,714
 <b>NET ASSETS</b>		
Unrestricted	8,947,389	8,405,949
Temporarily restricted	5,535,707	5,699,239
Permanently restricted	5,234,998	5,234,998
Total Net Assets	<u>19,718,094</u>	<u>19,340,186</u>
Total Liabilities And Net Assets	<u>\$21,696,161</u>	<u>\$21,495,900</u>

See notes to the consolidated financial statements.

WQED MULTIMEDIA AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	2018			Total
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
<b>OPERATING REVENUES AND SUPPORT</b>				
Contributed income:				
Membership	\$4,933,236	\$ 2,000	-	\$ 4,935,236
Government grants and contributions	-	2,270,536	-	2,270,536
Foundation grants and contributions	46,059	400,640	-	446,699
Corporate grants and contributions	-	7,859	-	7,859
Sales and underwriting	1,525,102	650,660	-	2,175,762
Earned income:				
Distribution, royalties and ancillary services	1,480,045	74,482	-	1,554,527
Investment income	86,956	600,849	-	687,805
Other	15,078	-	-	15,078
	<u>8,086,476</u>	<u>4,007,026</u>	<u>-</u>	<u>12,093,502</u>
Net assets released from restriction	<u>4,170,558</u>	<u>(4,170,558)</u>	<u>-</u>	<u>-</u>
	12,257,034	(163,532)	-	12,093,502
<b>EXPENSES AND OTHER DEDUCTIONS</b>				
Salaries	3,112,616	-	-	3,112,616
Program acquisition	1,625,146	-	-	1,625,146
Facilities	1,605,555	-	-	1,605,555
Membership	1,328,820	-	-	1,328,820
Payroll taxes and benefits	1,119,343	-	-	1,119,343
Production/project costs	831,295	-	-	831,295
Depreciation	699,917	-	-	699,917
Other operating expense	586,498	-	-	586,498
Professional fees	403,418	-	-	403,418
Travel and entertainment	185,517	-	-	185,517
Supplies	129,875	-	-	129,875
Marketing	76,817	-	-	76,817
Distribution and fulfillment	10,777	-	-	10,777
Interest expense	-	-	-	-
	<u>11,715,594</u>	<u>-</u>	<u>-</u>	<u>11,715,594</u>
Changes In Net Assets Before Nonoperating Proceeds	541,440	(163,532)	-	377,908
<b>NONOPERATING PROCEEDS</b>				
Spectrum auction proceeds, net	-	-	-	-
Changes In Net Assets	541,440	(163,532)	-	377,908
<b>NET ASSETS</b>				
Beginning of year	<u>8,405,949</u>	<u>5,699,239</u>	<u>\$5,234,998</u>	<u>19,340,186</u>
End of year	<u>\$8,947,389</u>	<u>\$5,535,707</u>	<u>\$5,234,998</u>	<u>\$19,718,094</u>

2017

<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
\$ 4,536,063	\$ 11,131	-	\$ 4,547,194
-	2,249,293	-	2,249,293
-	429,045	-	429,045
127,230	42,611	-	169,841
1,304,767	427,006	-	1,731,773
1,712,720	-	-	1,712,720
42,436	907,472	-	949,908
3,433	-	-	3,433
7,726,649	4,066,558	-	11,793,207
4,183,573	(4,183,573)	-	-
11,910,222	(117,015)	-	11,793,207
3,018,423	-	-	3,018,423
1,629,340	-	-	1,629,340
1,516,379	-	-	1,516,379
1,172,696	-	-	1,172,696
1,172,808	-	-	1,172,808
667,822	-	-	667,822
694,297	-	-	694,297
467,350	-	-	467,350
345,747	-	-	345,747
175,782	-	-	175,782
131,149	-	-	131,149
109,615	-	-	109,615
15,325	-	-	15,325
66,070	-	-	66,070
11,182,803	-	-	11,182,803
727,419	(117,015)	-	610,404
9,410,362	-	-	9,410,362
10,137,781	(117,015)	-	10,020,766
(1,731,832)	5,816,254	\$5,234,998	9,319,420
\$ 8,405,949	\$5,699,239	\$5,234,998	\$19,340,186

See notes to the consolidated financial statements.

WQED MULTIMEDIA AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Changes in net assets	\$ 377,908	\$10,020,766
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	699,917	694,297
Net realized and unrealized gain on investments	(415,862)	(705,354)
Provision for uncollectible accounts	10,750	(9,194)
Spectrum auction proceeds, net of expenditures	-	(9,410,362)
Changes in assets and liabilities:		
Accounts receivable	(8,119)	(34,986)
Grants receivable	23,994	329,945
Pledge receivable	141,605	285,389
Prepaid expenses and other assets	(5,711)	37,492
Accounts payable	167,985	(296,730)
Accrued liabilities	(489,191)	(241,157)
Gift annuity payable	(34,500)	(34,500)
Deferred revenue	178,059	(103,515)
Net Cash Provided By Operating Activities	646,835	532,091
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of investments	329,786	388,863
Proceeds from spectrum auction, net of expenditures	-	9,410,362
Purchase of investments	(3,265,678)	(2,154,024)
Purchase of property and equipment	(172,091)	(106,678)
Net Cash (Used In) Provided By Investing Activities	(3,107,983)	7,538,523
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Line of credit, net	-	(500,000)
Repayment of term loan	-	(3,755,160)
Net Cash Used In Financing Activities	-	(4,255,160)
Net (Decrease) Increase In Cash And Cash Equivalents	(2,461,148)	3,815,454
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	3,832,191	16,737
End of year	\$ 1,371,043	\$ 3,832,191
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid during the year for interest	-	\$ 66,070

See notes to the consolidated financial statements.



WQED MULTIMEDIA AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018 AND 2017

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 consolidated financial statements include the accounts of WQED and its subsidiary (collectively, the Organization). All significant transactions and accounts between the consolidated entities have been eliminated.

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

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

Spectrum Proceeds - In July 2017, WQED was awarded approximately \$9.4 million in net proceeds from the FCC reverse broadcast spectrum incentive auction. These proceeds enabled WQED to retire its debt, reimburse funds borrowed from the endowment (See Note 8 - Endowment), contribute additional funds to the retirement plan, and to cover technical and equipment costs, estimated to be \$1,000,000, to move WQED's spectrum position.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of significant accounting policies consistently applied by management in the preparation of the accompanying consolidated 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 (U.S. GAAP).

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

Use of Estimates - The preparation of financial statements in conformity with U.S. GAAP 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.

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

WQED MULTIMEDIA AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018 AND 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 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 non-licensing transactions) are initially recorded in temporarily restricted net assets.

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

The Organization has a 99-year lease with a local university, which expires in February 2066, at a nominal fee of \$1 per year for the land and building where its studio and office facilities are located. The lease states that the land and facilities are to be used in the 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 2018 and 2017.

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

WQED MULTIMEDIA AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018 AND 2017

NOTE 2 - 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 \$61,000 and \$50,000 at September 30, 2018 and 2017, 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, 2018 and 2017, no allowance for uncollectible grants was considered to be necessary.

Two donors accounted for approximately 91% and 93% of the Organization's grants receivable at September 30, 2018 and 2017, respectively.

Pledges Receivable - Pledges receivable are recorded at their net realized value. Conditional pledges are recognized when the conditions on which they depend are substantially met. There were no conditional promises to give at September 30, 2018 and 2017.

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 that 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 on estimated useful lives, which range from 7 to 15 years. 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 when 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, 2018 and 2017.

WQED MULTIMEDIA AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018 AND 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences - Employees are entitled to vacation time 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, 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, 2018 and 2017.

Recent Accounting Pronouncements - In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09 Revenue from Contracts with Customers (ASU 2014-09), which requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Additionally, the update (1) specifies the accounting for some costs to obtain or fulfill a contract with a customer and (2) expands disclosure requirements related to revenue and cash flows arising from contracts with customers. ASU 2014-09 is effective for annual reporting periods beginning after September 30, 2020, including interim periods within that reporting period, and permits the use of either the retrospective or cumulative effect transition method. WQED is currently evaluating the impact of the adoption of ASU 2014-09 on WQED's consolidated financial statements.

WQED MULTIMEDIA AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018 AND 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In February 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-02 Leases (Topic 842) (ASU 2016-02), under which a lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. Under finance leases, a lessee will be required to recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments in the statement of financial position; recognize interest on the lease liability separately from amortization of the right-of-use asset in the statement of comprehensive income; and classify repayments on the principal portion of the lease liability within financing activities and payments of interest on the lease liability and variable lease payments within operating activities in the statement of cash flows. For operating leases, a lessee is required to recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in the statement of financial position; recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term on a generally straight-line basis; and classify all cash payments within operating activities in the statement of cash flows. The amendments are effective for fiscal years beginning after December 15, 2019, and early application is permitted. WQED is assessing the impact that ASU 2016-02 will have on its consolidated financial statements.

In August 2016, the FASB completed Phase I of its Presentation of Financial Statements of Not-for-Profit Entities and issued ASU No. 2016-14 Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities (ASU 2016-14), which is intended to simplify and improve not-for-profit financial reporting.

Specifically, ASU 2016-14:

- Revises the net asset classification scheme to two classes (net assets with donor restrictions and net assets without donor restrictions) instead of the previous three classes, while maintaining the requirement to report total net assets and changes in the classes of and total of net assets.
- Continues to allow for a choice between the direct and indirect method of reporting operating cash flows; however, presentation of the indirect reconciliation is no longer required if using the direct method.
- Enhances disclosures for:
  - Self-imposed limits on the use of resources without donor-imposed restrictions
  - Composition of net assets with donor restrictions and how the restrictions affect the use of resources
  - Qualitative disclosures on how a not-for-profit manages its available liquid resources to meet cash needs for general expenditures within one year of the balance sheet date
  - Quantitative disclosures that communicate the availability of financial assets to meet cash needs for general expenditures within one year of the balance sheet date
  - Methods used to allocate costs among program and support functions

WQED MULTIMEDIA AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018 AND 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Requires the presentation of expenses by nature as well as function, including an analysis of expenses showing the relationship between functional and natural classification for all expenses.
- Updates the accounting and disclosure requirements for underwater endowment funds, which include required disclosure of (1) policy concerning appropriation from underwater endowment funds, (2) the aggregate fair value of such funds, (3) the aggregate original gift amount (or level required by donor or law) to be maintained, and (4) the aggregate amount by which funds are under water, which are to be classified as part of net assets with donor restrictions.
- Requires net presentation of investment expenses against investment return on the statement of activities and eliminates the requirement to disclose investment expenses that have been netted.
- Requires the use of, in the absence of explicit donor stipulations, the placed-in-service approach for reporting expiration of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset, and reclassification of amounts from net assets with donor restrictions to net assets without donor restrictions for such long-lived assets that have been placed in service as of the beginning of the period of adoption (thus eliminating the current option to release the donor-imposed restrictions over the estimated useful life of the acquired asset).

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

In August 2016, the FASB issued ASU No. 2016-15 Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (ASU 2016-15), which reduces diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. ASU 2016-15 requirements are as follows: 1) cash payments for debt prepayment or debt extinguishment costs should be classified as cash outflows for financing activities, 2) contingent consideration payments made soon after a business combination should be classified as cash outflows for investing activities and cash payment made thereafter should be classified as cash outflows for financing up to the amount of the contingent consideration liability recognized at the acquisition date with any excess classified as operating activities, 3) cash proceeds from the settlement of insurance claims should be classified on the basis of the nature of the loss, 4) cash proceeds from the settlement of Corporate-Owned Life Insurance (COLI) policies should be classified as cash inflows from investing activities, and cash payments for premiums on COLI policies may be classified as cash outflows for investing activities, operating activities, or a combination of investing and operating activities, and 5) cash paid to a tax authority by an employer when withholding shares from an employee's award for tax-withholding purposes should be classified as cash outflows for financing activities. ASU 2016-15 will be effective for the Organization beginning September 30, 2020 and can be applied either retrospectively to each period presented. WQED is currently evaluating the impact of adopting ASU 2016-15 on its consolidated financial statements.

In June 2018, the FASB issued ASU No. 2018-08 Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (ASU 2018-08), which will assist entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958 Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance. ASU 2018-08 will also assist entities in determining whether a contribution is conditional. ASU 2018-08 is effective for fiscal years beginning after December 15, 2018 and should be applied on a modified prospective basis with retrospective application permitted. WQED is assessing the impact that the adoption of ASU 2018-08 will have on its consolidated financial statements.

WQED MULTIMEDIA AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018 AND 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events - Subsequent events are defined as events or circumstances that occur after the balance sheet date, but before the consolidated financial statements are issued or available to be issued. Management has evaluated subsequent events through February 6, 2019, which is the date that the consolidated financial statements were available to be issued.

NOTE 3 - PLEDGES RECEIVABLE

Pledges receivable at September 30 are as follows:

	<u>2018</u>	<u>2017</u>
Gross pledges receivable	\$ <u>158,253</u>	\$ <u>299,858</u>
Amounts due in:		
Less than one year	\$ 87,017	\$ 159,688
One to five years	<u>71,236</u>	<u>140,170</u>
	<u>\$ 158,253</u>	<u>\$ 299,858</u>

NOTE 4 - INVESTMENTS

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

	<u>2018</u>		<u>2017</u>	
	<u>Market</u>	<u>Cost</u>	<u>Market</u>	<u>Cost</u>
Money market	\$ 284,059	\$ 284,059	\$ 239,900	\$ 239,900
Equity:				
Mutual funds	2,106,582	1,573,839	3,607,528	3,629,051
Common stock	2,477,537	2,100,204	2,903,305	2,475,693
Exchange traded funds	1,862,651	1,551,444	1,879,551	1,169,610
Other equity	976	976	976	976
Fixed income:				
Corporate bonds	1,712,512	1,726,459	-	-
Government bonds	1,206,285	1,212,731	-	-
Mutual funds	<u>3,452,426</u>	<u>3,511,089</u>	<u>1,120,014</u>	<u>907,311</u>
	<u>\$ 13,103,028</u>	<u>\$ 11,960,801</u>	<u>\$ 9,751,274</u>	<u>\$ 8,422,541</u>

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NOTE 4 - INVESTMENTS (Continued)

Investment income at September 30 is composed of the following:

	<u>2018</u>	<u>2017</u>
Realized income:		
Interest and dividends	\$ 271,943	\$ 244,554
Realized gain on sale of investments	<u>1,116,763</u>	<u>119,609</u>
	1,388,706	364,163
Unrealized (depreciation) appreciation	<u>(700,901)</u>	<u>585,745</u>
Net investment income	<u>\$ 687,805</u>	<u>\$ 949,908</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. Investment income is allocated to unrestricted net assets and temporarily restricted net assets based on the specific investments income.

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment at September 30 consist of the following:

	<u>2018</u>	<u>2017</u>
Transmitter:		
Building	\$ 328,454	\$ 328,454
Tower	3,308,875	3,308,875
Studio building and improvements	13,019,290	12,903,552
Technical equipment	6,038,441	6,026,760
Office furniture and equipment	<u>3,191,316</u>	<u>3,146,644</u>
	25,886,376	25,714,285
Accumulated depreciation	(20,915,335)	(20,215,418)
Land	<u>300</u>	<u>300</u>
	<u>\$ 4,971,341</u>	<u>\$ 5,499,167</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 10 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 10 years. The remaining net book value of this equipment was \$315,074 and \$372,617 as of September 30, 2018 and 2017, respectively.



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NOTE 6 - LONG-TERM DEBT

On December 18, 2015, WQED entered into an agreement for a \$4,000,000 term loan and a \$2,000,000 line of credit. During 2017, the \$4,000,000 term loan was paid in full with the proceeds from the reverse spectrum auction. The \$2,000,000 line-of-credit arrangement remains in effect until December 31, 2020, and at September 30, 2018 and 2017, no amounts were drawn on the line of credit. The line of credit bears interest at the greater of 2.0% or one-month London InterBank Offered Rate plus 1.0% (3.26% at September 30, 2018). The arrangement is collateralized by all eligible assets of WQED included certain marketable securities, the value of which at all times must be equal or greater than 115% of all outstanding amounts under the agreements.

There was no interest expense incurred or paid for the year ended September 30, 2018. Interest expense incurred and paid was \$66,070 for the year ended September 30, 2017.

NOTE 7 - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

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

	<u>2018</u>	<u>2017</u>
Program production and development	\$ 4,582,728	\$ 4,762,036
Capital projects	598,226	626,784
Education	347,253	273,749
FM radio	<u>7,500</u>	<u>36,670</u>
	<u>\$ 5,535,707</u>	<u>\$ 5,699,239</u>

Net assets released from restrictions at September 30 consist of the following:

	<u>2018</u>	<u>2017</u>
Program production and development	\$ 3,027,259	\$ 3,055,981
Capital projects	153,558	144,927
Education	848,331	837,266
FM radio	141,410	128,517
Other	<u>-</u>	<u>16,882</u>
	<u>\$ 4,170,558</u>	<u>\$ 4,183,573</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 activities and included in temporarily restricted net assets. Permanently restricted net assets at September 30, 2018 and 2017 provide income for the following purposes:

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

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NOTE 8 - 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 Board of Trustees of WQED have elected to be governed by the Commonwealth of Pennsylvania's Act 141 (Act 141) 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 of Directors elects the amount. On an annual basis, the Board of Directors, 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 September 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, as well as the change in endowment funds by net asset type for the years ended September 30, are as follows:

	<u>Unrestricted Board- Designated</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets				
September 30, 2016	\$ (125,198)	\$ 1,545,087	\$ 5,234,998	\$ 6,654,887
Equity transfer to board designated	1,917,625	-	-	1,917,625
Investment income, net of related expenses	23,024	75,533	-	98,557
Net appreciation	283,279	448,722	-	732,001
Appropriation of endowment funds	<u>212,438</u>	<u>(495,689)</u>	<u>-</u>	<u>(283,251)</u>
Endowment net assets				
September 30, 2017	2,311,168	1,573,653	5,234,998	9,119,819
Investment income, net of related expenses	27,943	108,818	-	136,761
Net appreciation	91,331	356,308	-	447,639
Appropriation of endowment funds	<u>272,892</u>	<u>(477,560)</u>	<u>-</u>	<u>(204,668)</u>
Endowment net assets				
September 30, 2018	<u>\$ 2,703,334</u>	<u>\$ 1,561,219</u>	<u>\$ 5,234,998</u>	<u>\$ 9,499,551</u>

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NOTE 8 - 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 12 quarters' market value average of the permanently restricted endowment fund to unrestricted net assets for use in current and future operations. In 2018 and 2017, the spendable return totaled \$477,560 and \$495,689, 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 9 - EXPENSES

Expenses as of September 30 consist of the following:

	<u>2018</u>	<u>2017</u>
Programs	\$ 6,118,501	\$ 6,555,504
Management and general	2,183,129	1,679,478
Membership and development	<u>3,413,964</u>	<u>2,947,821</u>
	<u>\$ 11,715,594</u>	<u>\$ 11,182,803</u>

NOTE 10 - EMPLOYEE BENEFIT PLANS

The Organization maintains a qualified salary deferral plan covering substantially all of its employees. Employees who participate may make elective contributions to the Plan, subject to IRS limitations. WQED contributes 5% of eligible compensation for non-bargaining employees and 5% of eligible compensation for bargaining employees. Effective October 1, 2017, WQED increased its elective contribution from 2% to 5% of eligible compensation for non-bargaining employees. The Organization contributed approximately \$417,000 and \$83,000 to the Plan in 2018 and 2017, respectively. In addition, in conjunction with the spectrum auction proceeds, WQED made a one-time discretionary contribution of \$250,000. This amount was accrued for as of September 30, 2017 and paid into the plan during the year ended September 30, 2018.

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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.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

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