Grant Thornton

Independent Auditor's Report
and
Financial Statements

KQED Inc.

September 30, 2017

Contents

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Independent Auditor's Report

Grant Thornton LLP
101 California Street, Suite 2700
San Francisco, CA 94111

T 415.986.3900
F 415.986.3916
www.GrantThornton.com

Board of Directors
KQED Inc.

We have audited the accompanying financial statements of KQED Inc. (the "Corporation"), which comprise the statement of financial position as of September 30, 2017, and the related statements of activities and changes in net assets, and cash flows for the year then ended and the related notes to the financial statements.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of KQED Inc. as of September 30, 2017, and the results of its activities and changes its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other matter

The financial statements of KQED Inc. as of and for the year ended September 30, 2016 were audited by other auditors. Those auditors expressed an unmodified opinion on those 2016 financial statements in their report dated December 5, 2016. The summarized comparative information presented herein as of and for the year ended September 30, 2016 is derived from those financial statements.

Grant Thornton LLP

San Francisco, California
January 3, 2018

KQED Inc.

Statement of Financial Position

September 30, 2017 (with comparative totals for 2016)	2017	2016
Assets		
Cash and cash equivalents	$ 22,810,561	$ 6,075,962
Restricted cash	9,376,036	10,188,830
Receivables, net	10,259,289	11,364,906
Prepaid expense and other assets	1,348,289	1,452,485
Investments	155,878,941	65,179,943
Deferred compensation investments	2,037,290	1,727,680
Charitable gift annuities and trusts	7,914,602	8,042,760
Intangible assets, net	2,171,797	2,257,591
Property and equipment, net	37,265,477	37,524,646
Total assets	$ 249,062,282	$ 143,814,803
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	$ 8,540,812	$ 8,297,686
Accrued broadcast rights	1,314,697	1,288,696
Deferred production and underwriting revenues	538,607	567,952
Deferred compensation obligations	2,037,290	1,727,680
Liabilities to beneficiaries of charitable gift annuities and trusts	4,174,937	3,480,416
Total liabilities	16,606,343	15,362,430
Net Assets:		
Unrestricted	185,089,343	83,635,638
Temporarily restricted	28,097,699	28,496,290
Permanently restricted	19,268,897	16,320,445
Total net assets	232,455,939	128,452,373
Total liabilities and net assets	$ 249,062,282	$ 143,814,803

See accompanying notes to financial statements.

KQED Inc.

Statement of Activities and Changes in Net Assets

Year Ended September 30, 2017 (with comparative totals for 2016)

	2017				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2016 Total
Revenues, Support and Other Changes:					
Contributions and membership fees	$ 44,168,445	$ -	$ -	$ 44,168,445	$ 39,705,061
Underwriting and general grants	16,954,640	-	-	16,954,640	15,657,749
Project grants	-	2,477,910	-	2,477,910	1,716,255
Community service grants	6,178,040	-	-	6,178,040	5,791,165
Spectrum auction revenue	95,459,109	-	-	95,459,109	-
Bequests and trusts	4,038,939	-	-	4,038,939	2,122,141
Investment income appropriated from endowments	1,603,783	1,259,336	-	2,863,119	2,677,138
Other revenue	951,416	-	-	951,416	1,239,708
Trade and in-kind donations	1,805,226	-	-	1,805,226	2,002,989
Net assets released from restrictions	3,176,002	(3,176,002)	-	-	-
Total revenues, support and other changes	174,335,600	561,244	-	174,896,844	70,912,206
Expenses:					
Program services:					
Television:					
Programming and production	12,119,185	-	-	12,119,185	11,588,095
Broadcast services	6,483,398	-	-	6,483,398	5,904,778
Radio:					
Programming and production	6,036,400	-	-	6,036,400	5,476,579
Broadcast services	2,654,606	-	-	2,654,606	2,559,160
Multiplatform content	12,651,697	-	-	12,651,697	10,914,406
Education network	1,099,680	-	-	1,099,680	824,591
Program promotion	3,983,579	-	-	3,983,579	3,563,172
Media technology	514,810	-	-	514,810	1,383,571
Interactive	1,716,161	-	-	1,716,161	2,055,405
Total program services	47,259,516	-	-	47,259,516	44,269,757
Support services:					
Fundraising	18,301,173	-	-	18,301,173	17,308,815
General and administrative	10,389,498	-	-	10,389,498	9,306,161
Total support services	28,690,671	-	-	28,690,671	26,614,976
Total expenses	75,950,187	-	-	75,950,187	70,884,733
Change in Net Assets from Operations	98,385,413	561,244	-	98,946,657	27,473
Permanent Endowment, Charitable Gift Annuities and Trust Contributions	-	455,636	2,973,004	3,428,640	641,535
Change in Value - Charitable Gift Annuities and Trusts	-	(1,133,059)	(24,552)	(1,157,611)	(212,095)
Investment Income on Endowments, Net	2,980,867	1,995,913	-	4,976,780	3,035,381
Campaign 21:					
Revenue and support	44,863	4,362,596	-	4,407,459	11,810,390
Net assets released from restrictions	6,640,921	(6,640,921)	-	-	-
Program services	(5,328,406)	-	-	(5,328,406)	(5,263,075)
Support services:					
Fundraising	(713,653)	-	-	(713,653)	(473,553)
General and administrative	(556,300)	-	-	(556,300)	(519,826)
Change in Net Assets	101,453,705	(398,591)	2,948,452	104,003,566	9,046,230
Net Assets, beginning of year	83,635,638	28,496,290	16,320,445	128,452,373	119,406,143
Net Assets, end of year	$ 185,089,343	$ 28,097,699	$ 19,268,897	$ 232,455,939	$ 128,452,373

See accompanying notes to financial statements.

KQED Inc.

Statement of Cash Flows

Year Ended September 30, 2017 (with comparative totals for 2016)	2017	2016
Operating Activities:		
Change in net assets	$ 104,003,566	$ 9,046,230
Adjustments to reconcile increase in net assets		
to net cash provided by operating activities:		
Depreciation and amortization	5,101,784	4,707,061
Amortization of discount on long-term promises to give	(14,686)	(1,638)
Realized and unrealized net gain on investments	(6,120,398)	(4,305,343)
Bad debt expense and cancelled contracts	32,202	63,533
Loss on disposal of equipment	603,757	31,934
Permanent endowment contribution	(2,973,004)	(18,402)
Net effect of changes in:		
Receivables	1,088,101	(5,864,428)
Prepaid expense and other assets	104,196	(198,281)
Charitable gift annuities and trusts	1,300,266	14,538
Accounts payable, accrued expenses and other liabilities	554,479	1,167,910
Deferred production and underwriting revenues	(29,345)	100,226
Net cash provided by operating activities	103,650,918	4,743,340
Investing Activities:		
Purchases of investments	(93,287,462)	(10,467,097)
Proceeds from sales of investments	7,536,754	8,676,970
Proceeds from sale of equipment	-	10,000
Purchases of equipment	(4,951,409)	(5,382,353)
Net cash used in investing activities	(90,702,117)	(7,162,480)
Financing Activities:		
Permanent endowment contribution	2,973,004	68,402
Net cash provided by financing activities	2,973,004	68,402
Change in Cash, Cash Equivalents and Restricted Cash	15,921,805	(2,350,738)
Cash, Cash Equivalents and Restricted Cash:		
Beginning of year	16,264,792	18,615,530
End of year	$ 32,186,597	$ 16,264,792
Supplemental Data:		
Interest paid	$ 2,520	$ 2,015
Non-Cash Transactions:		
Equipment purchases included in payables at year end	$ 964,179	$ 1,373,348

See accompanying notes to financial statements.

KQED Inc.

Notes to the Financial Statements

Note 1 - Summary of Significant Accounting Policies:

a. Organization

KQED Inc. (the "Corporation") is a nonprofit corporation which operates three noncommercial public television stations ("KQED", "KQEH", "KQET") in San Francisco, San Jose and Monterey, and two noncommercial public radio stations ("KQED-FM") in San Francisco and ("KQEI-FM") in North Highlands. The Corporation also distributes its content and services via KQED.org, KQEDNews.org, and KQED Education as well as other digital and mobile media technology.

The Corporation serves the people of Northern California with a community-supported alternative to commercial media. The Corporation's television, radio, digital media and educational services seek to change lives for the better and help individuals and communities achieve their full potential. The Corporation provides citizens with the information they need to make informed decisions, convenes community dialogue, brings the arts to everyone, and engages audiences to share their stories. The Corporation's content and services help students and teachers thrive in 21st century classrooms, and take people of all ages on journeys of exploration, exposing them to new people, places and ideas. The Corporation celebrates diversity, embraces innovation, values lifelong learning, and partners with those who share a commitment to public service.

b. Basis of Presentation

The Corporation's financial statements are presented on the accrual basis of accounting and have been presented showing unrestricted, temporarily restricted, and permanently restricted net assets and are prepared in accordance with accounting principles generally accepted in the United States of America.

c. Cash, Cash Equivalents and Restricted Cash

The Corporation considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. Restricted cash includes funds restricted by various funders for specific projects and operating periods, as well as deferred obligations for underwriting.

d. Receivables

The Corporation's accounts and contributions receivable consist primarily of amounts due from general members, individual donors and advertising trades. Grants and underwriting receivables consist of amounts due from foundations and corporate sponsors. Receivables are recorded at the present value of the estimated future cash flows. The discounts are computed using risk-free rates applicable in the years in which the commitments are received.

The Corporation uses the allowance method to account for uncollectible receivables. The allowance for doubtful accounts is based on historical experience, present market conditions and an evaluation of the outstanding receivables at the end of the year.

e. Investments

The Corporation's investments consist of stocks, bonds, mutual funds, certificates of deposit, United States (U.S.) Treasury bills, cash and money market funds, and limited partnerships.

Investments, except for the investments in limited partnerships, are carried at estimated fair value based on quoted market prices. Investments received through gifts and endowments are recorded at estimated fair market value at the date of donation. Unrealized gains and losses resulting from changes in fair value are recognized in the period in which such fluctuations occur. Income is recorded within net asset categories in accordance with donor stipulations.

The Corporation holds significant ownership interests in two limited partnerships and accounts for these investments under the equity method. Under the equity method of accounting, the financial statements of the limited partnerships are not consolidated with the Corporation's financial statements; however, the Corporation's share of the earnings or losses of the limited partnerships are reflected in other revenues in the Statement of Activities and Changes in Net Assets. The Corporation's carrying value of the investments in the limited partnerships are included in investments as reflected in the Statement of Financial Position (see Note 3).

f. Charitable Gift Annuities and Trusts

Charitable gift annuities and trusts are established by gifts that require payments to be made to the donor or the donor's designee(s) from assets of the trust and which name the Corporation as the beneficiary of the assets remaining at the termination of the trust. Charitable gift annuities and trusts are recorded as contribution income at the fair value of the assets in the trust less an annuity reserve. The present value of the estimated payouts under the agreement is computed using actuarial methods and the 2000CM mortality table, with a discount rate of 1.2% to 8.2%, representing the risk-adjusted rate applicable in the year the gift was made, and expected return based on current market conditions. The income is temporarily restricted during the life of the donor unless the donor has permanently restricted the use of the remainder interest. An annual adjustment is made for the actuarial gain or loss on annuity obligations representing differences between assumed and actual experience as to earnings, payouts, and life expectancies used in the computation of the liability for distribution.

As of September 30, 2017 and 2016, future annuity payments due to beneficiaries of charitable gift annuities and trusts totaled $4,174,937 and $3,480,416, respectively, on the accompanying Statement of Financial Position.

Charitable trust assets also include the fair value of the Corporation's remainder interest receivable in certain trusts where the Corporation is not the trustee. The fair value of these trusts is measured based upon the estimated net present value of amounts to be received using investment values reported from the trustees less liabilities to beneficiaries calculated using the valuation technique as described above.

California Insurance Code (the "Code") requires that organizations maintain a reserve fund adequate to meet the future payments under its outstanding charitable gift annuity contracts. In addition, the law requires that 50% of the reserve fund be invested in specified governmental fixed income investments. As of September 30, 2017, the Corporation had sufficient funds in its reserve fund to meet the California Insurance Code requirements and those funds were invested in accordance with the Code.

g. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Corporation classifies its financial assets and liabilities measured at fair value on a recurring basis (annually) based on a fair value hierarchy with three levels of inputs. Level 1 values are based on unadjusted quoted prices in active markets for identical securities. Level 2 values are based on significant observable market inputs, such as quoted prices for similar securities and quoted prices in inactive markets. Level 3 values are based on significant unobservable inputs that reflect the Corporation's determination of assumptions that market participants might reasonably use in valuing the securities. The valuation levels are not necessarily an indication of the risk or liquidity associated with the assets and liabilities measured at fair value.

h. Property and Equipment

Property and equipment are stated at cost. Donated assets are recorded at the estimated fair value at the date of donation. Depreciation and amortization are computed using the straight-line method based upon estimated useful lives of the assets ranging from 2 to 55 years. The carrying amount of long-lived assets is evaluated periodically to determine if adjustments to the useful life of the undepreciated balance are warranted.

i. Broadcast Rights

The Corporation purchases and capitalizes broadcast rights for certain programs from the Public Broadcasting Service and other sources. These costs are expensed over the period of expected telecasts or the term of the agreement, whichever is shorter.

j. Unrestricted Restricted Net Assets

Unrestricted net assets are available to support all activities of the Corporation and are not subject to donor imposed stipulations.

k. Temporarily Restricted Net Assets

Temporarily restricted net assets represent contributions that are limited in use by the Corporation in accordance with donor-imposed stipulations that either expire with the passage of time or can be fulfilled and removed by activities conducted by the Corporation pursuant to those stipulations.

l. Permanently Restricted Net Assets

Permanently restricted net assets represent contributions to be held as investments in perpetuity as directed by the original donor. The income from these funds is generally available for current use. As of September 30, 2017, permanently restricted net assets include invested endowment funds of $19,106,199 and beneficiary interest in a charitable remainder annuity trust of $162,698.

m. Revenue Recognition

Contributions and charitable grants are recognized as revenue at fair value when they are received or unconditionally pledged. Membership fees are recognized as unrestricted revenue when committed as they relate to current year's operations. Premium costs offered to members as thank-you gifts or appreciation are recorded as fundraising expenses in the Statement of Activities and Changes in Net Assets and approximated $2,308,000 and $2,186,000 in the years ended September 30, 2017 and 2016, respectively, which includes the value of deminimus premium items.

Corporate underwriting support is recognized as unrestricted revenue when earned based on broadcasting of related acknowledgements. Government grants are recognized when allowable costs have been incurred. Funds received in advance are reported in deferred production and underwriting revenues in the Statement of Financial Position.

The Corporation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions.

n. In-Kind Contributions

Contributions of services are recognized when received if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

In-kind contributions consist of donated professional and other services and donated goods. The estimated fair value of these donations of $0 and $228,154 for the year ended September 30, 2017, respectively, and $5,000 and $446,640 for the year ended September 30, 2016, respectively, and is reflected in the accompanying Statement of Activities and Changes in Net Assets. Donated personal services of volunteers are not reflected in the accompanying financial statements because such services do not require the specialized skills stipulated under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-605, *Accounting for Contributions Received and Contributions Made.* The estimated fair value of such donated volunteer services is based upon standard valuation rates and job classifications and amounted to $130,726 and $149,583 for the years ended September 30, 2017 and 2016, respectively.

o. Nonmonetary Transactions

The Corporation has transactions involving the exchange of sponsorship rights for goods and services, including capital assets. These transactions are recorded based on the fair value of the goods and services received. For the years ended September 30, 2017 and 2016, sponsorship barter transactions resulted in the recognition of approximately $1,567,000 and $1,544,000, respectively, in revenues and approximately $1,558,000 and $1,544,000, respectively, in expenses in the accompanying Statement of Activities and Changes in Net Assets.

p. Campaign 21

There is a transformation in the media industry due to the digital revolution. To compete in this new age, the Corporation has embarked on a multi-year fundraising campaign to generate contributions to create a new infrastructure and reinvent the way the Corporation creates content and convenes community dialogue. In fiscal years 2017 and 2016, the Corporation received support of approximately $4,363,000 and $11,810,000, respectively.

q. Income Taxes

The Corporation is a tax exempt organization under Internal Revenue Service Code Section 501(c)(3) and the California tax code. The Corporation's current accounting policy is to evaluate uncertain tax positions. Accordingly, a loss contingency is recognized when it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss can be reasonably estimated. Management evaluated the Corporation's tax position and concluded that the Corporation had maintained its tax exempt status and had taken no uncertain tax positions that required adjustment to the financial statements. Therefore, no provision or liability for income taxes has been included in the financial statements.

r. Functional Expense Allocations

Certain expenses, such as depreciation, contract services and utilities are allocated among program services and supporting services based primarily on equipment usage, space occupied, headcount and on estimates made by the Corporation's management.

s. Concentrations of Credit Risk

Financial instruments which potentially subject the Corporation to credit risk include cash, cash equivalents, restricted cash, investments, and receivables. The Corporation attempts to limit its credit risk associated with cash equivalents and marketable securities by utilizing outside investment managers to place the Corporation's investments with highly rated corporate and financial institutions. The Corporation's receivables result primarily from donor pledges, membership drives and underwriting sponsorships. These receivables are from donors, members and sponsors located primarily in the San Francisco Bay Area. The Corporation routinely assesses the financial strength of these various parties.

As of September 30, 2017 and 2016, one donor comprised 29% and 35% of the receivables balance, respectively.

As of September 30, 2017, the Corporation's cash, cash equivalents and investments were in excess of the federal depository and securities investor protection corporation insurance limits.

t. Collective Bargaining Agreements

The Corporation has two union collective bargaining agreements which cover approximately 34% of its Full-Time, Part-Time and Temporary staff. NABET's (National Association of Broadcast Employees and Technicians) contract expired in October 2016. The parties have agreed to an extension of the contract and are currently negotiating a successor agreement. The contract between SAG-AFTRA (Screen Actors Guild-American Federation of Television and Radio Artists) and KQED-FM expires in September 2018. Negotiations are anticipated to begin several months before the contract expiration.

The Corporation also has a basic minimum agreement with SAG-AFTRA covering performers appearing on KQED-TV, which expired in December 2016. The Corporation and SAG-AFTRA have recently reached agreement in principle on the terms of a three-year renewal agreement which, when finalized and signed, will expire in December 2019. Additionally, the Corporation is a signatory to the SAG-AFTRA Public Television Agreement which covers performers who appear on television programs distributed nationally. It has expired, and the Public Broadcasting Service (PBS) and producing stations, including the Corporation, are currently in discussions with SAG-AFTRA on a renewal.

u. Use of Estimates

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

v. Comparative Financial Information

The financial statements include certain summarized comparative information as of and for the year ended September 30, 2016 presented in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Corporation's financial statements for the year ended September 30, 2016, from which the summarized financial information was derived.

w. Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

x. Recent Accounting Pronouncements

Pronouncements Effective in the Future

In May 2014, the FASB issued ASU 2014-09 – *Revenue from Contracts with Customers (Topic 606)*. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of 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. This guidance is effective for fiscal years beginning after December 15, 2017. The Corporation is evaluating the impact this update will have on its financial statements. In February 2016, the FASB issued ASU 2016-02 – *Leases (Topic 842)*. The amendments in this update will supersede much of the existing authoritative guidance for leases. This guidance requires lessees, among other things, to recognize right-of-use assets and liabilities on their balance sheet for all leases with lease terms longer than twelve months. The amendments in the update are effective for fiscal years beginning after December 15, 2019 with early application permitted. The Corporation is currently evaluating the impact of this pronouncement on its financial statements.

In February 2016, the FASB issued ASU 2016-02 – *Leases (Topic 842*). The amendments in this update will supersede much of the existing authoritative guidance for leases. This guidance requires lessees, among other things, to recognize right-of-use assets and liabilities on their balance sheet for all leases with lease terms longer than twelve months. The amendments in the update are effective for fiscal years beginning after December 15, 2019 with early application permitted. The Corporation is currently evaluating the impact of this pronouncement on its financial statements.

In August 2016, the FASB issued ASU 2016-14 – *Not-for-Profit Entities (Topic 958)*: *Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this update make improvements to the information provided in financial statements and accompanying notes of not-for-profit entities. The amendments set forth the FASB's improvements to net asset classification requirements and the information presented about a not-for-profit entity's liquidity, financial performance, and cash flows. The amendments in the update are effective for annual financial statements issued for fiscal years beginning after December 15, 2017 with early application permitted. Amendments should be applied on a retrospective basis in the year the update is first applied. The Corporation is currently evaluating the impact of this pronouncement on its financial statements.

In November 2016, the FASB issued ASU 2016-18 – *Statement of Cash Flows (Topic 230): Restricted Cash*. The amendments in this update address diversity in practice that exists in the classification and presentation of changes in restricted cash on the statement of cash flows. The amendments require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The amendments in the update are effective for fiscal years beginning after December 15, 2019 with early application permitted. The Corporation is currently evaluating the impact of this pronouncement on its financial statements.

y. Subsequent Events

The Corporation evaluated subsequent events from September 30, 2017 through January 3, 2018, the date these financial statements were available to be issued. The Corporation concluded that no material subsequent events have occurred since September 30, 2017 that requires recognition or disclosure in such financial statements.

Note 2 - Receivables:

At September 30, 2017, receivables consist of the following:

	Accounts and Contributions Receivable	Grants and Underwriting Receivable	Campaign 21 Receivable	Total
Amounts due in:				
One year or less	$ 3,371,634	$ 3,265,326	$ 1,601,200	$ 8,238,160
Two to three years (net of discount of $19,302)	-	-	2,218,198	2,218,198
Less: allowance for doubtful accounts	15,004	182,065	-	197,069
Total	$ 3,356,630	$ 3,083,261	$ 3,819,398	$ 10,259,289

At September 30, 2016, receivables consist of the following:

	Accounts and Contributions Receivable	Grants and Underwriting Receivable	Campaign 21 Receivable	Total
Amounts due in:				
One year or less	$ 3,797,961	$ 2,912,405	$ 1,505,200	$8,215,566
Two to three years (net of discount of $29,745)	-	-	3,357,455	3,357,455
Less: allowance for doubtful accounts	58,115	150,000	-	208,115
Total	$ 3,739,846	$ 2,762,405	$ 4,862,655	$ 11,364,906

Note 3 - Investments:

The Corporation’s investments were composed of the following at September 30, 2017:

	Operating	Endowment	Board Designated Endowment	Total
Cash and cash equivalents	$ -	$ 124,680	$ 683,342	$ 808,022
Certificates of deposit	6,247,777	-	-	6,247,777
U.S. Treasury bills	-	-	56,213,999	56,213,999
Mutual funds - equity	-	21,483,523	38,011,665	59,495,188
Mutual funds - bonds	9,006,739	8,600,554	15,306,662	32,913,955
Limited partnership interest	200,000	-	-	200,000
Total	$15,454,516	$ 30,208,757	$110,215,668	$155,878,941

Operating investments at September 30, 2017 include funds designated by the Corporation’s Board of Directors of approximately $3,000,000 for operating expense reserves and $9,000,000 for building reserves dedicated to repairing or replacing the Corporation’s existing facility.

The Corporation's investments were composed of the following at September 30, 2016:

	Operating	Endowment	Board Designated Endowment	Total
Cash and cash equivalents	$ -	$ 60,910	$ 197,268	$ 258,178
Certificates of deposit	3,502,344	-	-	3,502,344
Mutual funds - equity	-	17,910,310	25,546,039	43,456,349
Mutual funds - bonds	-	7,268,620	10,244,452	17,513,072
Limited partnership interest	450,000	-	-	450,000
Total	$ 3,952,344	$ 25,239,840	$ 35,987,759	$ 65,179,943

Spectrum Auction

As part of the Federal Communications Commission (FCC) spectrum auction conducted during the 2017 fiscal year, the Corporation received a one-time non-recurring cash infusion of $95,459,109. Participation in the auction allowed the Corporation to repurpose underutilized broadcast spectrum, which is much in demand by wireless service providers. This action did not have a material impact upon services or coverage for Bay Area residents as most households receive their television via cable or satellite services and not over airwaves. Digital (as opposed to analog) broadcast technology also supports the ability to relinquish six megahertz of broadcast spectrum without significant impacts to service.

The Corporation's Board of Directors approved the transaction and, acknowledging the historic long-term nature of the assets that generated these proceeds, designated the funds to be invested as follows:

Spectrum Endowment Fund	$ 67,459,109
Building Fund	20,000,000
Reserve fund	8,000,000
	$ 95,459,109

Investment in Limited Partnership

The Corporation's investments in the limited partnerships are accounted for under the equity method and are adjusted annually for impairment and management fees.

In December 2012, the Corporation entered into a limited partnership agreement with Matter Ventures, LLC to form Matter Ventures SF I, LP. Matter Ventures, LLC is the general partner while the Corporation and the Knight Foundation are founding limited partners, each making a capital commitment to invest $1,250,000 for a 50% ownership interest in the partnership. The purpose of the partnership is to support and invest in media entrepreneurs to build ventures that make society more informed, connected and empowered. As of September 30, 2014, the entire commitment from the Corporation was paid in full. For the year ended September 30, 2017, the Corporation received a distribution from the investment of $66,250. The balance in Matter Ventures SF, I LLP at September 30, 2017 is $0.

In November 2014, the Corporation made a capital commitment to invest $750,000 to Matter Ventures Fund II, LP for a 13.66% ownership interest in the partnership. As of September 30, 2017, the entire commitment from the Corporation was paid in full. For the year ended September 30, 2017, the Corporation recognized its share of loss from the interest in Matter Ventures Fund, II LP in the amount of $300,000. The balance in Matter Ventures SF, II LLP at September 30, 2017 is $200,000.

The Corporation's endowment and Board designated contributions and net income on investments consist of the following components:

October 1, 2016 – September 30, 2017	Endowment	Board Designated Endowment	Total
Contributions invested	$ 2,973,004	$ 71,247,042	$ 74,220,046
Interest and dividends	$ 642,474	$ 922,415	$ 1,564,889
Realized and unrealized net gain	2,733,003	3,830,206	6,563,209
Service fees	(120,228)	(167,971)	(288,199)
Total investment gain	3,255,249	4,584,650	7,839,899
Income appropriated to operations	(1,259,336)	(1,603,783)	(2,863,119)
Total investment gain, net	$ 1,995,913	$ 2,980,867	$ 4,976,780

October 1, 2015 – September 30, 2016	Endowment	Board Designated Endowment	Total
Contributions invested	$ 68,402	$ 1,507,043	$ 1,575,445
Interest and dividends	$ 652,757	$ 905,120	$ 1,557,877
Realized and unrealized net gain	1,846,792	2,576,206	4,422,998
Service fees	(112,670)	(155,686)	(268,356)
Total investment gain	2,386,879	3,325,640	5,712,519
Income appropriated to operations	(1,239,821)	(1,437,317)	(2,677,138)
Total investment gain, net	$ 1,147,058	$ 1,888,323	$ 3,035,381

Note 4 - Fair Value of Financial Instruments:

The table below presents Corporation's assets measured at fair value, by category of risks, at September 30, 2017 on a recurring basis.

	2017		
	Level 1	Level 3	Total
Investments:			
Certificates of deposit	$ 6,247,777	$ -	$ 6,247,777
U.S. Treasury bills	56,213,999	-	56,213,999
Mutual funds – equity:			
Domestic large company	23,540,221	-	23,540,221
International large company	11,704,848	-	11,704,848
Domestic small company	6,871,326	-	6,871,326
International small company	2,098,154	-	2,098,154
Emerging markets	4,544,884	-	4,544,884
Real estate investment trusts:			
Domestic	6,602,882	-	6,602,882
International	4,132,873	-	4,132,873
Mutual funds – bonds:			
Domestic	28,621,501	-	28,621,501
International	4,292,454	-	4,292,454
Subtotal investments	$154,870,919	$ -	154,870,919
Cash and cash equivalents			808,022
Total			$155,678,941
Deferred Compensation Investments:			
Certificates of deposit	$ 199,945	$ -	$ 199,945
Mutual funds – equity:			
Domestic large company	866,283	-	866,283
Domestic medium company	47,277	-	47,277
Domestic small company	56,289	-	56,289
International large company	95,083	-	95,083
Real estate	19,125	-	19,125
Mutual funds – bonds:			
Domestic	290,833	-	290,833
Exchange traded funds:			
Domestic large company	36,622	-	36,622
Domestic small company	64,000	-	64,000
International large company	49,140	-	49,140
International real estate	23,988	-	23,988
Emerging markets	28,538	-	28,538
Stocks – domestic	11,012	-	11,012
Subtotal deferred compensation investments	$ 1,788,135	$ -	1,788,135
Cash and cash equivalents			249,155
Total			$ 2,037,290

	2017		
	Level 1	Level 3	Total
Charitable gift annuities and trusts:			
U.S. Treasury notes	$ 1,139,178	$ -	$ 1,139,178
Mutual funds – equity:			
Domestic large company	1,916,538	-	1,916,538
International large company	913,996	-	913,996
Domestic small company	410,313	-	410,313
International small company	144,117	-	144,117
Emerging markets	333,401	-	333,401
Real estate investment trusts:			
Domestic	581,548	-	581,548
International	369,064	-	369,064
Mutual funds – bonds:			
Domestic	942,152	-	942,152
International	493,901	-	493,901
Split interest investment (non-trustee)	-	481,297	481,297
Subtotal charitable gift annuities and trusts investments	$ 7,244,208	$ 481,297	7,725,505
Cash and cash equivalents			189,097
Total			$ 7,914,602

The table below presents Corporation's assets measured at fair value, by category of risks, at September 30, 2016 on a recurring basis.

	2016		
	Level 1	Level 3	Total
Investments:			
Certificates of deposit	$ 3,502,344	$ -	$ 3,502,344
Mutual funds – equity:			
Domestic large company	17,167,063	-	17,167,063
International large company	8,527,602	-	8,527,602
Domestic small company	4,938,042	-	4,938,042
International small company	1,515,299	-	1,515,299
Emerging markets	3,376,867	-	3,376,867
Real estate investment trusts:			
Domestic	4,892,731	-	4,892,731
International	3,038,745	-	3,038,745
Mutual funds – bonds:			
Domestic	14,372,821	-	14,372,821
International	3,140,252	-	3,140,252
Subtotal investments	$ 64,471,766	$ -	64,471,766
Cash and cash equivalents			258,177
Total			$ 64,729,943

	2016		
	Level 1	Level 3	Total
Deferred Compensation Investments:			
Certificates of deposit	$ 121,486	$ -	$ 121,486
Mutual funds – equity:			
Domestic large company	690,264	-	690,264
Domestic medium company	41,741	-	41,741
Domestic small company	46,216	-	46,216
International large company	65,017	-	65,017
Real estate	19,153	-	19,153
Mutual funds – bonds:			
Domestic	278,115	-	278,115
Exchange traded funds:			
Domestic large company	31,090	-	31,090
Domestic small company	54,098	-	54,098
International large company	41,544	-	41,544
International real estate	19,604	-	19,604
Emerging markets	24,648	-	24,648
Stocks – domestic	9,082	-	9,082
Subtotal deferred compensation investments	$ 1,442,058	$ -	1,442,058
Cash and cash equivalents			285,622
Total			$ 1,727,680
Charitable gift annuities and trusts:			
U.S. Treasury notes	$ 1,647,145	$ -	$ 1,647,145
Mutual funds – equity:			
Domestic large company	1,385,224	-	1,385,224
International large company	651,578	-	651,578
Domestic small company	266,291	-	266,291
International small company	100,251	-	100,251
Emerging markets	243,487	-	243,487
Real estate investment trusts:			
Domestic	435,413	-	435,413
International	275,667	-	275,667
Mutual funds – bonds:			
Domestic	606,252	-	606,252
International	345,145	-	345,145
Split interest investment (non-trustee)	-	1,943,691	1,943,691
Subtotal charitable gift annuities and trusts investments	$ 5,956,452	$ 1,943,691	7,900,143
Cash and cash equivalents			142,616
Total			$ 8,042,760

The following is a rollforward of the Level 3 assets:

	Split-interest investment (non-trustee)
Fair value at September 30, 2015	$ 2,115,184
Change in value	(171,493)
Fair value at September 30, 2016	$ 1,943,691
Change in value	(1,462,394)
Fair value at September 30, 2017	$ 481,297

Other financial instruments

Financial instruments, which are included in the Corporation's Statement of Financial Position as of September 30, 2017 but not required to be measured at fair value, consist of cash and cash equivalents, receivables, accounts payable, and liabilities to beneficiaries of charitable gift annuities and trusts. Their carrying amounts, including the present value of future cash flows, represent a reasonable estimate of the corresponding fair values.

Note 5 - Intangible Assets:

In May 2003, the Corporation acquired the assets of KQEI-FM Radio in North Highlands California for $3,196,568 which included $64,770 of radio station equipment. The acquisition was accounted for under the purchase method. The purchase price was allocated $2,966,362 to the broadcast license and $165,436 to acquisition costs. The broadcast license and acquisition costs are reflected as intangible assets on the accompanying Statement of Financial Position and are being amortized over the estimated useful life of 40 years. The accumulated amortization at September 30, 2017 and 2016 was $1,128,751 and $1,050,457, respectively. The radio station equipment is included in property and equipment on the accompanying Statement of Financial Position.

In October 2006, the Corporation acquired the assets of KTEH Foundation in San Jose which included a license fee for $300,000 which is being amortized over the estimated useful life of 40 years. The accumulated amortization at September 30, 2017 and 2016 was $131,250 and $123,750, respectively.

The Corporation reviewed intangible assets and determined that the estimated useful lives of 40 years used are appropriate as of September 30, 2017.

The following is a schedule of expected amortization expense for the succeeding five years and thereafter:

September 30,	
2018	$ 85,795
2019	85,795
2020	85,795
2021	85,795
2022	85,795
Thereafter	1,742,822
Total	$ 2,171,797

Note 6 - Property and Equipment:

Property and equipment at September 30, consisted of the following:

	2017	2016
Land	$ 1,269,691	$ 1,269,691
Building and improvements	35,851,128	34,151,192
Furniture, fixtures, office equipment and vehicles	9,708,066	8,809,970
TV station equipment	31,166,817	32,061,717
Radio station equipment	7,208,614	5,829,387
Multiplatform equipment	1,944,396	1,671,832
Construction in progress	-	188,524
Total	87,148,712	83,982,313
Less accumulated depreciation	(49,883,235)	(46,457,667)
Property and equipment, net	$ 37,265,477	$ 37,524,646

Property and equipment are secured against the line of credit (see Note 7) and reversionary interests pursuant to certain government grant agreements.

Note 7 - Line of Credit:

The Corporation had a revolving line of credit in the amount of $1,500,000 which expired on November 1, 2017 and was not renewed by the Corporation. The line of credit contains certain covenants and is secured by the Corporation's accounts receivable and other rights to payment, general intangibles, inventory, and equipment and fixtures. The interest rate is based upon a fixed rate per year determined by the bank to be 2.00% above LIBOR in effect on the first day of each fixed rate term. The Corporation had no outstanding balance on the line of credit at September 30, 2017. As of September 30, 2017, the Corporation was in compliance with its covenants.

Note 8 - Temporarily Restricted Net Assets and Releases:

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of other events specified by donors during the years ended September 30,:

	2017	2016
Campaign 21	$ 6,640,921	$ 6,726,058
Underwrite specific productions or areas of programming	1,795,961	2,191,047
Endowment earnings appropriated	1,259,336	1,239,821
Planned gifts	120,705	186,970
Total	$ 9,816,923	$ 10,343,896

Temporarily restricted net asset balances were available for the following as of September 30,:

	2017	2016
Campaign 21 (restricted for purpose and time)	$ 11,794,806	$ 14,073,131
Endowment earnings not yet spent (restricted for purpose and time)	11,102,557	9,106,645
Planned gifts (restricted for time)	3,576,967	4,375,095
Underwrite specific productions or areas of programming (restricted for purpose and time)	1,623,369	941,419
Total	$ 28,097,699	$ 28,496,290

Note 9 - Endowments:

The Corporation's endowments consist of donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. Donor-restricted endowment funds are restricted to investment in perpetuity, the income from which is expendable in accordance with donor stipulations, to support programmatic or general activities of the Corporation. Net assets associated with endowment funds, including funds designated by the Board of Directors 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 Directors of the Corporation has interpreted the State Prudent Management of Institutional Funds Act (“SPMIFA”) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Corporation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by SPMIFA.

In accordance with SPMIFA, the Corporation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) The duration and preservation of the fund, (2) The purposes of the organization and the donor-restricted endowment fund, (3) General economic conditions, (4) The possible effect of inflation and deflation, (5) The expected total return from income and the appreciation of investments, (6) Other resources of the organization, (7) The investment policies of the organization.

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or SPMIFA requires the Corporation to retain as a fund of perpetual duration. No such deficiencies existed as of September 30, 2017 and 2016.

Return Objectives and Risk Parameters

The Corporation’s primary long-term management objective is to preserve the inflation adjusted purchasing power of Endowment funds, while providing an available, stable, and constant stream of earnings to help meet the Corporation’s spending needs.

Strategies Employed for Achieving Objectives

The Corporation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives with prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Spending Rule Amount is defined as the annual amount appropriated by the Board of Directors for inclusion in the subsequent year’s budget. The withdrawals may not exceed 5% of the Endowment’s market value averaged over the prior 12 quarters calculated as of June 30 each year. If this amount would cause the Corporation Permanent Endowment’s value to fall below its original gift value level, then the annual Spending Rule Amount to be included in the subsequent fiscal year’s budget is limited to the amount in excess of the original gift value.

If the annual Spending Rule Amount becomes limited as so described, this may be considered a "financial emergency" for purposes of making supplemental payouts from the Board-Designated Endowment. If such a financial emergency is determined by the Board of Directors, the Corporation may spend additional amounts from the Board-Designated Endowment up to the entire principal balance in the Board-Designated Endowment.

Endowment funds as of September 30, 2017 are as follows:

	Unrestricted Funds	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 11,102,558	$ 19,106,199	$ 30,208,757
Board-designated fund	42,579,710	-	-	42,579,710
Spectrum Auction endowment fund	67,635,958	-	-	67,635,958
Total endowment funds	$110,215,668	$ 11,102,558	$ 19,106,199	$140,424,425

The Spectrum Auction endowment fund was established with the intent that the spectrum auction proceeds be maintained to benefit the community and the Corporation over the long term.

The permanently restricted endowments funds exclude receivables of $162,698 and $187,250 as of September 30, 2017 and 2016, respectively.

Endowment activity by net asset classification as of September 30, 2017:

	Unrestricted Funds	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 35,987,759	$ 9,106,645	$ 16,133,195	$ 61,227,599
Investment return:				
Interest and dividends	922,415	642,474	-	1,564,889
Realized and unrealized net gain	3,662,235	2,612,775	-	6,275,010
Total investment gain (see Note 3)	4,584,650	3,255,249	-	7,839,899
Contributions	71,247,042	-	2,973,004	74,220,046
Appropriation of endowment assets for expenditure	(1,603,783)	(1,259,336)	-	(2,863,119)
Endowment net assets, end of year	$110,215,668	$ 11,102,558	$ 19,106,199	$140,424,425

Endowment activity by net asset classification as of September 30, 2016:

	Unrestricted Funds	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 32,592,393	$ 7,959,587	$ 16,064,793	$ 56,616,773
Investment return:				
Interest and dividends	905,120	652,757	-	1,557,877
Realized and unrealized net gain	2,420,520	1,734,122	-	4,154,642
Total investment gain (see Note 3)	3,325,640	2,386,879	-	5,712,519
Contributions	1,507,043	-	68,402	1,575,445
Appropriation of endowment assets for expenditure	(1,437,317)	(1,239,821)	-	(2,677,138)
Endowment net assets, end of year	$ 35,987,759	$ 9,106,645	$ 16,133,195	$ 61,227,599

Note 10 - Campaign 21:

Campaign 21 assets included in the Statement of Financial Position consist of the following:

	2017	2016
Restricted cash	$ 7,975,408	$ 9,210,476
Receivables, net	3,819,398	4,862,655
Total Campaign 21 assets	$ 11,794,806	$ 14,073,131

Conditional promises to give are not included as support until the conditions are substantially met. There was one conditional promise to give of $2,500,000 at September 30, 2017 conditional on Campaign 21 reaching a monetary goal.

Campaign 21 program services comprised of expenses for the following programs for the years ended September 30,:

	2017	2016
Multiplatform content	$ 2,166,887	$ 2,783,169
Education	1,875,698	825,900
Innovation lab	410,767	478,448
Media technology	875,054	1,175,558
Total Campaign 21 program services expense	$ 5,328,406	$ 5,263,075

Note 11 - Commitments and Contingencies:

Leases

The Corporation leases real estate property in connection with their operation of noncommercial public television and radio stations. The following is a schedule of future minimum lease payments required under non-cancelable operating leases as of September 30, 2017:

September 30,	
2018	$ 1,280,629
2019	1,261,979
2020	1,064,172
2021	859,037
2022	636,069
Thereafter	1,445,885
Total minimum rental payments	$ 6,547,771

The minimum lease payments do not include future cost of living escalations and pro rata property tax allocations, which are required for certain of the leases. Total rent expense, including month-to-month leases, was $1,321,634 and $1,284,385 for the years ended September 30, 2017 and 2016, respectively.

Other Commitments and Contingencies

The Corporation is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Corporation's financial position or its change in net assets.

Note 12 - Retirement Plans:

The 403(b) tax sheltered annuity plan is funded by employee contributions and the employer's matching share amount. The employer matching share amount is 5.5%. Contribution costs, funded currently, were approximately $1,427,744 and $1,315,582 for the years ended September 30, 2017 and 2016, respectively.

The Corporation has deferred compensation plans primarily for the purpose of providing deferred compensation for a select group of employees to accumulate retirement assets. The assets of the plans are under general control and available to general creditors of the Corporation and are included in the Statement of Financial Position.

The 457(b) plan enables participants to defer income on a pre-tax basis and is not matched with contributions from the Corporation. For the years ended September 30, 2017 and 2016, approximately $105,000 and $85,000, respectively has been deferred based on elections made by the participants to the 457(b) plan.

The 457(f) deferred compensation plan is funded by employer contributions. The contribution to the 457(f) plan was approximately $80,000 and $40,000 for the years ended September 30, 2017 and 2016, respectively.

The total market value of 457(b) and 457(f) investments and the related deferred compensation obligations to employees included in the Statement of Financial Position at September 30, 2017 and 2016 were approximately $2,037,000 and $1,728,000, respectively.

Note 13 - Related Party Transactions:

The Corporation has transactions, in the normal course of business, where directors and employees make contributions to the Corporation. For the years ended September 30, 2017 and 2016, those contributions were approximately $1,552,000 and $1,673,000, respectively. As of September 30, 2017 and 2016, the balance due from related parties was approximately $26,000 and $30,000, respectively.